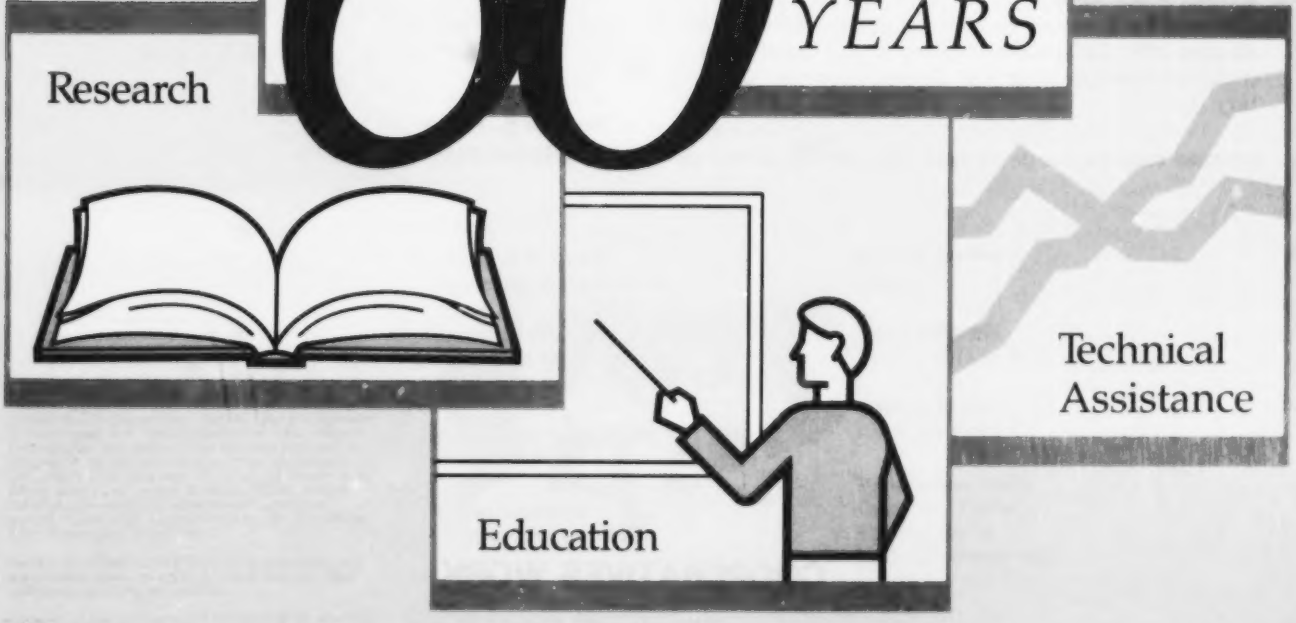
53/7

Farmer COOPERATIVES

October 1986

United States Department of Agriculture/Agricultural Cooperative Service

Cooperative Marketing Act 60 YEARS



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A Challenge of Service

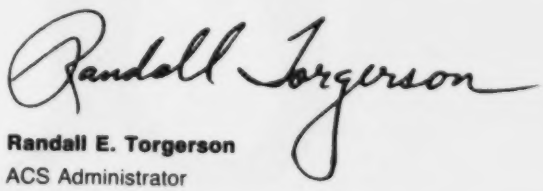
Farmer-owned cooperatives were provided a service in the Department of Agriculture that was given more permanent standing through passage of the Cooperative Marketing Act of 1926. A key player in enactment of the final bill was Secretary of Agriculture William Jardine. He wrote Congress in January 1926 and said the Department of Agriculture should render more service to cooperatives than it was. He said he was "strongly in favor" of the proposed 1926 legislation and regarded it as "thoroughly constructive."

The legislation sponsored by the Department was confined to research, education, and technical assistance work through a specially created cooperative unit, now known as the Agricultural Cooperative Service. Jardine regarded the cooperative unit's work as being accomplished "principally through research work covering the various phases of cooperative activity." Employment of commodity specialists was seen as essential to successfully executing the unit's research and service work. The need for keeping members fully informed was deemed important through a continuous educational process. As former dean and president of Kansas State Agricultural College, Jardine recognized the need for a central storehouse of expertise and assistance that the system of colleges and universities could not maintain, but was nevertheless complementary to it.

Because cooperation developed from the needs and experiences of farm people, Secretary Jardine felt it would be hampered by imposition of Government regulations. Cooperatives were business concerns, he reasoned, and shouldn't be required to accept regulations and control from which other commercial entities were exempt. Jardine felt any measures transfering responsibility for management of associations to the Government "would be fatal to their efficiency."

Succeeding Secretaries of Agriculture have often issued policy statements recognizing and supporting the role of cooperatives in the farm economy. These statements have encouraged agencies within the Department to devote time and resources to assisting producers in their self-help efforts.

Secretary Richard Lyng has recently emphasized the service role of the Department to its various constituencies. Agricultural Cooperative Service is dedicated to ensuring a strong and viable cooperative sector in agriculture, and ready to assist within the bounds of its available resources.



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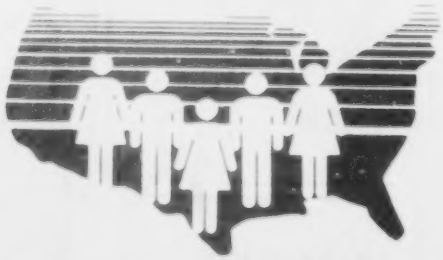
ACS Administrator

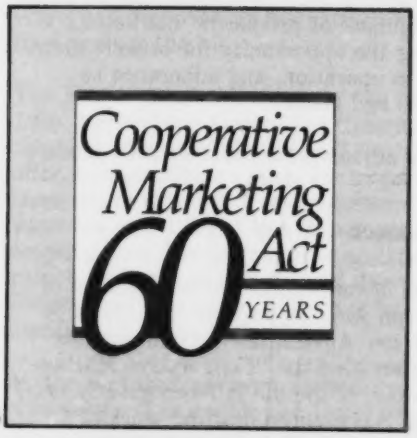


COOPERATIVES WORK

Farmer COOPERATIVES

October 1986 Vol. 53 No. 7

United States Department of Agriculture/Agricultural Cooperative Service



Secretary Jardine Played Major Role in 1926 Cooperative Marketing Act Randall E. Torgerson **4**

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Law Authorizing ACS

Secretary Jardine Played Major Role in 1926 Cooperative Marketing Act

Authorizing legislation for the Agricultural Cooperative Service (ACS) was enacted and signed into law on July 2, 1926. The legislative history of the Act indicates a vastly different bill emerged from the legislative process than when first introduced in 1925.

The USDA itself had a major hand in creating the final bill under the leadership of new Secretary of Agriculture William Jardine. Characteristic of the legislative process of the time, a "farm bloc" coalition was instrumental in serving as a sounding board and contributing to ultimate passage of the Act.

When first introduced as H.R.12348 on Feb. 18, 1925 in the second session of the 68th Congress by Congressman Gilbert Haugen of Iowa, the bill was entitled the "Federal Cooperative Marketing Act" and known as the Haugen bill. It was written as an amendment to the Capper-Volstead Act of 1922 and provided for the creation of a Federal Cooperative Marketing Board comprised of six members including the Secretary of Agriculture.

According to the Committee on Agriculture Report No. 1517, the board was to serve as a registrar of marketing cooperatives based on their financial standing and methods of doing business. A certificate would be issued to federally registered cooperatives indicating they had passed muster. Proposed certification however, was not mandatory as a condition of doing business. The board was structured like others already established in industry and banking.

The bill also provided for the USDA unit to serve as a coordinating agency through which producers' organizations could get direct help and assistance. The bill also authorized cooperatives to function as a clearinghouse for eliminating oversupply or undersupply in various consuming markets without interference of antitrust laws.

The proposed legislation had the support of the Agricultural Conference on Agriculture Legislation appointed by the President. In viewing agriculture as the most important industry in America, the conference report said:

"It is the opinion of the conference that the time has arrived to give due emphasis to the fact that the present problems of agriculture rest upon the ability of the farmer to market his goods at a profit, and that constructive assistance to such problems may be found through the development of producers' marketing organizations creating the opportunity for orderly distribution, economies in operation, and adherence to approved standards and grades."

The 68th Congress adjourned without further action on the bill.

New Version Introduced

A new version was introduced in the first session of the 69th Congress on Jan. 18, 1926 as H.R. 7893. A report from the House Agriculture Committee commented on the bill entitled the "Cooperative Marketing Act." This version of the bill differed greatly from the earlier one and represented drafting work of Secretary of Agriculture Jardine. As the new Secretary, he conferred with cooperative leaders and reportedly contacted 37 cooperative associations throughout the country representing 80 percent of cooperative marketing volume.

The new proposal would create a Division of Cooperative Marketing in the Bureau of Agriculture Economics (BAE). Through research, education, and service work, it would assist agricultural cooperatives. Purpose of the bill, according to the House report, was to enlarge activities of the Department to keep pace with the growth and development of the cooperative movement. Intent of the bill was to "do for the marketing of agricultural products through cooperative associations" what already had been done for production. Significantly, the new version didn't provide for Government control or supervision like the earlier one.

Testifying in support of the bill, Secretary Jardine said it signaled the "high importance of cooperative marketing," and emphasized "cooperative associations are engaged in a far-reaching undertaking which is fundamental and vital to the welfare of American agriculture and to its tremendous social and economic importance to our rural life." He stressed the bill wasn't an emergency measure but rather a long-time program.

The report was given unqualified support by a committee of nine appointed by the National Council of Farmers' Cooperative Marketing Associations, a trade association of non-dairy and poultry cooperatives. The organization's counsel was Aaron Sapiro who testified on behalf of the bill. Others testifying for the bill were

Randall E. Torgerson
ACS Administrator

Cooperative Marketing Act 60 YEARS

representatives of the National Milk Producers Federation, American Cranberry Exchange, and National Grange. No opposition testimony or statements were filed against the bill.

The House debated passage of the bill on Jan. 25, 1926. Agriculture Committee Chairman Haugen said the bill was intended to permit the Department to offer administrative assistance to persons engaged in cooperative marketing of agricultural products and enlarge the activities of the Department in service to cooperatives. The bill wasn't regulatory in nature but rather designed to acquire and disseminate knowledge. Subsequent debate identified the following points of clarification or contention:

- The technical advisory assistance portion of the bill was designed to enable the Department to serve as a clearinghouse in offering professional advice to different cooperative organizations.

- The bill entitles the unorganized farmers to be put in the same economic status other forms of business (railroads, banks, labor unions, and corporations) enjoyed at the time of their formation.

- The Act clearly envisioned cooperatives' role in manufacturing and marketing raw products without this value-added activity being in violation of antitrust prosecution.

- Purpose of the Act was to serve and not limit cooperatives.

- The Act supported the need for research on cooperative issues as a basis for offering advice.

- Some proponents wanted regulatory teeth in the bill similar to the 1925 version, including compulsory audits, but this approach wasn't supported.

- A number of congressmen said it added nothing new in economic relief to farmers, but appeared to do no harm.

Voting tally on the bill was 361 yeas, 3 nays, 1 present, and 65 not voting. It was referred to the Senate on Jan. 27, 1926.

Senate Action on Bill

The Senate Committee on Agriculture and Forestry took up the House bill and Senate companion bill (S.1910) introduced by Senator Charles McNary of Oregon for 7 days from March 5 to 23, 1926. Secretary Jardine's letter to the committee said the Department strongly favored the proposed legislation and regarded it as thoroughly constructive. He said the bill, developed with his help, neither provided for control or supervision, nor subsidizing cooperatives.

In Senate Committee debate, several issues arose and were thoroughly discussed. One was to include naval stores such as turpentine and rosin as products in the bill. Southeastern Congressman strongly favored this feature, but Chairman George Norris of Nebraska and others said it was kept out of the Capper-Volstead Act because producers of naval stores were largely corporations and not farmers. A National Poultry, Butter, and Egg Association representative said benefits should be broadened to marketing agents beyond cooperatives such as merchants and trade associations. This case was particularly aimed at the development of crop situation and outlook information provisions in the bill.

Charles Holman, secretary of the National Milk Producers Federation and also representing the National Board of Farm Organizations, said HR 7893 represented a 12-year effort to secure Government assistance for agriculture and cooperatives, but efforts had been dismantled by one Secretary of Agriculture. "We wish to see permanent policy established in the Department so that irrespective of the wishes, or, let us say, the desires of succeeding Secretary's, this work can go on for the benefit of that part of the agriculture public who wish to market their products in a cooperative way... By having it put into the basic law and appropriations made directly for it, it will be very difficult to disband a cooperative division again."

Holman also said the organizations he represented were strongly against any effort by Government to license, supervise, or exercise control over the business affairs of cooperatives. One of the most important

Cooperative Marketing Act 60 YEARS

features of the bill, he noted, was Section 5 permitting exchange of crop and market information between cooperatives, agencies-in-common, federations, and their members.

In supporting creation of a cooperative division in USDA, he saw the need for administratively segregating the cooperative unit in BAE to handle requests from cooperatives for gathering special information. Confidentiality in technical assistance work was also emphasized. Only the cooperative requesting a business efficiency survey, for instance, should have access to the information, he indicated.

Walton Peteet, secretary of the National Council of Farmers' Cooperative Marketing Associations, countered efforts by poultry associations to water down the bill by making it applicable to all comers and not specifically to cooperatives.

A BAE official stressed it was a cooperative marketing bill, and not the Department's intent to have the cooperative division conduct the original work on price forecasting and developing market statistical information because the agency was already doing it. The Department submitted new language to clarify this role. Lloyd Tenny, assistant BAE chief, emphasized the technical assistance work was not to be made available to everybody, only to the board of directors or the membership of requesting organizations.

Chester Gray, Washington representative of the American Farm Bureau Federation, also supported the bill with a view to the long term. He saw the cooperative unit's work as standardizing cooperative marketing to make it permanent and successful. He strongly opposed including naval stores in provisions of the bill and said gigantic corporations aren't qualified as cooperatives under the Capper-Volstead Act.

Committee Favored Bill

The Senate Committee issued Report 664 on Apr. 24, 1986 and recommended favorable consideration of the House bill. Much of the report language dealt with the "farm relief" provisions of an amendment and legislative history. Secretary Jardine's letter to the Committee on May 27, 1926 supported the bill without inclusion of coverage to naval stores.

Senate debate was protracted from April 29 to June 29, 1926. Among debate issues were the naval stores, the problem of free riders who benefit from cooperative action without paying the cost, critical need for farm relief from depressed economic conditions, and whether corporations should have the benefits of cooperative action.

On June 17, Senator Fess of Ohio offered an amendment in the form of a substitute. It provided for creation of a cooperative division plus a National Agricultural Commission. His amendment was a modified version of the McNary-Haugen bill which had lost in earlier sessions. The vote on the substitute bill was 26 yaes and 54 naes.

The Senate voted June 29, 1926 on the House version and insisted on a conference with the House. Conferees appointed were Senators Norris, McNary, and Smith. The House on June 30 concurred in the Senate action, but voted 158-86 to drop naval stores from the bill's provisions. The bill was enrolled on July 1 and signed by the President July 22, 1926.

Interpretation

It is clear from hearings and debate, strong support existed for creating a specialized service unit in the Department to provide information to cooperatives and help producers to organize efficient associations with staying power. A number of legislators wanted to use the bill as a vehicle for tacking on the farm relief measures of the McNary-Haugen vintage but these were rejected.

Secretary of Agriculture Jardine played a pivotal role in shaping the final bill. Jardine had served as dean and president of Kansas State Agricultural College before coming to Washington as Secretary. He had a keen realization of the need for research on cooperation and for services needed by cooperatives. His appearance on the scene after the first version of the bill was introduced provided a basis for personal consultation and drafting of the new version which was supported and finally enacted. It had full support of the new Administration.

Rep. Haugen of Iowa and Sen. McNary of Oregon, who authored the bill, steered it through hearings with finesse and resolve. United support from the farm bloc overcame opposition from trade and corporate interests trying to amend the bill with provisions applying to noncooperatives. The result is a service in the Department focusing on research, technical assistance, and education to the cooperative community. ■

History Capsule

USDA Assistance to Cooperatives

Assisting agricultural cooperatives was an informal activity within the U.S. Department of Agriculture as early as 1867.

1901—Information was assembled as reference data on farmer cooperatives in the United States.

1912—First official USDA project in agricultural cooperatives.

1913—Office of Markets formed, cooperative activity included.

1922—Assistance was formalized as the Division of Agricultural Cooperation, Bureau of Agricultural Economics.

1926—Renamed Division of Cooperative Marketing.

1929—Transferred to Federal Farm Board.

1933—Transferred to new Farm Credit Administration (FCA), an independent agency, and later renamed Cooperative Research and Service Division.

1939—FCA returned to USDA jurisdiction.

1953—FCA again became independent, but its Cooperative Research and Service Division remained with USDA and was elevated to agency status as Farmer Cooperative Service (FCS).

1978—FCS combined with Economic Research Service and Statistical Reporting Service to form a new agency, Economics, Statistics, and Cooperatives Service (ESCS).

1980—Cooperatives segment of ESCS returned to agency status as Agricultural Cooperative Service.

Responsible Officers for Early Work

1921—L.S. Tenny, assistant chief, Bureau of Markets and Crop Estimates, including Division of Cooperative Relations.

1924—Chris L. Christensen, head, Division of Agricultural Cooperation, Bureau of Agricultural Economics. Name changed to Division of Cooperative Marketing in 1926.

1929—A.W. McKay, chief, Division of Cooperative Marketing, Federal Farm Board.

1933—F.B. Bomberger, chief, Division of Cooperative Marketing and Economic Division, Federal Farm Board.

1934—Henry M. Bain, chief, Research, Service, and Education, Cooperative Bank Division, Farm Credit Administration.

1939—Thomas G. Stitts, chief, Cooperative and Research and Service Division, Farm Credit Administration.

1942—Harold Hedges, chief, Cooperative and Research and Service Division, Farm Credit Administration.

Agency Administrators

1953—Joseph G. Knapp

1966—David W. Angevine

1970—Eric Thor

1973—Ronald D. Knutson

1975—Randall E. Torgerson

Congress Enacts Cooperative Marketing Act of 1926

(Public—No. 450—69th Congress
(H.R. 7893)

An Act to create a division of cooperative marketing in the Department of Agriculture; to provide for the acquisition and dissemination of information pertaining to cooperation; to promote the knowledge of cooperative principles and practices; to provide for calling advisors to counsel with the Secretary of Agriculture on cooperative activities; to authorize cooperative associations to acquire, interpret, and disseminate crop and market information, and for other purposes. *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* that when used in this Act the term "agricultural products" means agricultural, horticultural, viticultural, and dairy products, livestock and the products thereof, the products of poultry and bee raising, the edible products of forestry, and any and all products raised or produced on farms and processed or manufactured products thereof, transported or intended to be transported in interstate and/or foreign commerce.

Sec. 2. The Secretary of Agriculture is hereby authorized and directed to establish a division of cooperative marketing with suitable personnel in the Bureau of Agricultural Economics of the Department of Agriculture or in such bureau in the Department of Agriculture as may hereafter be concerned with the marketing and distribution of farm products. Such division shall be under the direction and supervision of the Secretary of Agriculture.

Sec. 3. (a) the division shall render service to associations of producers of agricultural products, and federations and subsidiaries thereof, engaged in the cooperative marketing of agricultural products, including processing, warehousing, manufacturing, storage, the cooperative purchasing of farm supplies, credit, financing, insurance, and other cooperative activities. (b) The division is authorized—

(1) To acquire, analyze, and disseminate economic, statistical, and historical information regarding the progress, organization, and business methods of cooperative associations in the United States and foreign countries.

(2) To conduct studies of the economic, legal, financial, social, and other phases of cooperation, and publish the results thereof. Such studies shall include the analyses of the organization, operation, financial, and merchandising problems of cooperative associations.

(3) To make surveys and analyses if deemed advisable of the accounts and business practices of representative cooperative associations upon their request; to report to the association so surveyed the results thereof, and with the consent of the association so surveyed to publish summaries of the results of such surveys, together with similar facts, for the guidance of cooperative associations and for the purpose of assisting cooperative associations in developing methods of business and market analysis.

(4) To confer and advise with committees or groups of producers, if deemed advisable, that may be desirous of forming a cooperative association and to make an economic survey and analysis of the facts surrounding the production and marketing of the agricultural product or products which the association, if formed, would handle or market.

(5) To acquire from all available sources information concerning crop prospects, supply, demand, current receipts, exports, imports, and prices of the agricultural products handled or marketed by cooperative associations, and to employ qualified commodity marketing specialists to summarize and analyze this information and disseminate the same among cooperative associations, and others.

(6) To promote the knowledge of cooperative principles and practices and to cooperate, in promoting such knowledge, with educational and marketing agencies, cooperative associations, and others.

(7) To make such special studies, in the United States and foreign countries, and to acquire and disseminate such information and findings as may be useful in the development and practice of cooperation.

Sec. 4. The Secretary of Agriculture is authorized, in his discretion, to call advisers to counsel with him and/or his representatives relative to specific problems of cooperative marketing of farm products or any other cooperative activity. Any person, other than an officer, agent, or employee of the United States, called into conference as provided for in this section, may be paid actual transportation expenses and not to exceed $10 per diem to cover subsistence and other expenses while in conference and in route from and to his home.

Sec. 5. Persons engaged, as original producers of

agricultural products, such as farmers, planters, ranchmen, dairymen, nut or fruit growers, acting together in associations, corporate or otherwise, in collectively processing, preparing for market, handling, and marketing in interstate and/or foreign commerce such products of persons so engaged, may acquire, exchange, interpret, and disseminate past, present, and prospective crop, market, statistical, economic, and other similar information by direct exchange between such persons, and/or such associations of federations thereof, and/or by and through a common agent created or selected by them.

Sec. 6. The Secretary of Agriculture may make such rules and regulations as may be deemed advisable to carry out the provisions of this Act and may cooperate with any department or agency of the Government, any State, Territory, District, or possession, or department, agency, or political subdivision thereof, or any person; and may call upon any other Federal department, board, or commission for assistance in carrying out the purposes of this Act; and shall have the power to appoint, remove, and fix the compensation of such officers and employees not in conflict with existing law and make such expenditure for rent, outside the District of Columbia, printing, telegrams, telephones, books of reference, books of law, periodicals, newspapers, furniture, stationery, office equipment, travel, and other supplies and expenses as shall be necessary to the administration of this Act in the District of Columbia and elsewhere, and there is hereby authorized to be appropriated, out of any moneys in the Treasury not otherwise appropriated, the sum of $225,000 to be available for expenditure during the fiscal years 1926 and 1927, and the appropriation of such additional sums as may be necessary thereafter for carrying out the purposes of this Act is hereby authorized.

Sec. 7. That if any provision of this Act is declared unconstitutional or the applicability thereof to any person or circumstance is held invalid, the validity of the remainder of the Act and the applicability of such provision to other persons and circumstances shall not be affected thereby, and nothing contained in this Act is intended, nor shall be construed, to modify or repeal any of the provisions of the Act of February 18, 1922 (chapter 57, Forty-second Statutes at Large, page 388).

Approved, July 2, 1926.

Cooperative Marketing Act 60 YEARS

ACS Only Organization Collecting, Publishing Nationwide Co-op Data

Charles A. Kraenzle
ACS Director
Cooperative Management Division

Data on farmer cooperatives are collected annually by U.S. Department of Agriculture's Agricultural Cooperative Service (ACS) through a mail survey of U.S. farmer cooperatives. Information is gathered on number of cooperatives, memberships, business volume, basic balance sheet items, and net margins or losses.

Data are published in *Farmer Cooperatives* magazine and expanded in a subsequent report to show progress and trends in cooperatives' growth and development. ACS is the only organization annually collecting and publishing nationwide information on farmer cooperatives.

Since 1980, ACS also has assembled information for a financial profile of the largest 100 farmer cooperatives to assist policymakers, cooperative managers, directors, and members in financial planning and performance evaulation. The annual profiles maintain continuity with earlier ACS finance studies and focus on the analysis of major elements of capital structure and main factors responsible for changes in financial condition.

The information provides important historical records and a data base for other uses such as research, technical assistance, education, planning, and policy development. For example, in a recent ACS publication, *Cooperative Historical Statistics*, statistics for U.S. agricultural cooperatives are reported for 1900 through 1980. This historical perspective wouldn't have been possible without the continuous data gathering efforts of ACS and its predecessors.

Methods Changed

Data on marketing and purchasing cooperatives were first compiled by USDA in 1863 and Federal Farm Board in 1929. Since 1930, annual data on marketing and purchasing cooperatives have been collected.

From 1930 to 1950, marketing and purchasing coopera-

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tives annually were surveyed to obtain data on memberships and dollar business volume. Marketing cooperatives were classified according to which of 10 commodity groups represented the largest part of their business volume. Data were summarized in an annual statistical report covering membership and total business volume and classified by major commodity group.

Beginning with the fiscal 1951 survey, questionnaires were revised to develop information on a functional and commodity basis, by State, census region, and United States.

Major changes were the identification of cooperative function and business volume by State. Cooperatives were asked to identify marketing, purchasing, and related service activities, States where members were located, where products handled originated, and where supplies were sold. Marketing volume information was collected for 13 categories of farm products and 10 purchasing activities. Related service data collected covered selected receipts not included elsewhere.

Regional cooperatives were asked to report the percentage of each farm product marketed directly for producers and for other cooperatives. They also were asked to furnish the percentage of individual major production supplies purchased directly by agricultural producers and other cooperatives.

New data were used to compile statistics on the gross dollar volume of all cooperatives' business and on their net dollar volume to eliminate duplication arising from business between cooperatives.

Business volume figures prior to 1951 were at a level somewhere between gross and net figures as now published. In previous figures, not all wholesale supply sales to other cooperatives or terminal market sales for local cooperatives were included. Consequently, the figures didn't represent gross value or a strict net value because only a partial adjustment had been made.

In 1977, basic balance sheet items and net margins were aggregated and published. Similar information has been published since 1979.

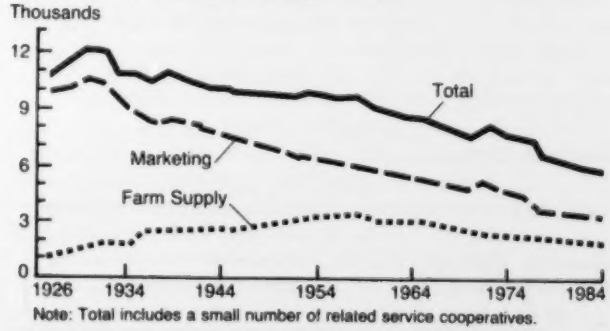
From 1951 to 1980, data were gathered from an annual census of farmer cooperatives. In 1981, procedures were changed to reduce the work of collecting and assembling data, reduce respondent burden, and enable more timely publishing of statistics. Cooperatives to be annually surveyed were determined by use of a probability sample for small volume cooperatives—sales less than $15 million. All cooperatives with sales of at least $15 million were included. This procedure is used in 3 of 4 years. A census is taken every fourth year.

National data are presented every year and State data every other year. For example, State data were published in 1981 and 1983 with 1983 being a census year. The next census of farmer cooperatives will be taken for 1987. Beginning with 1978, farmer cooperative statistics were aggregrated on a calendar versus fiscal (July to June 30) year basis.

Historical Trends

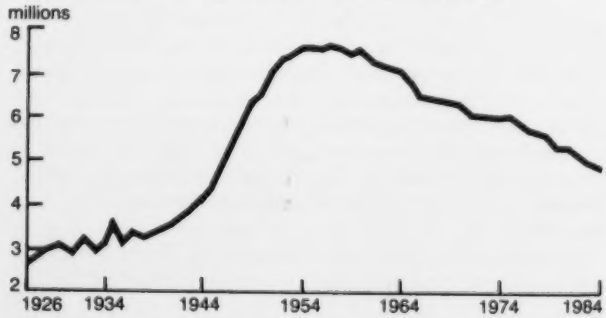
Numbers of marketing, farm supply, and related service cooperatives have been steadily declining from the record 12,000 in 1930 (fig. 1). Nearly 88 percent were primarily marketing cooperatives. Most of their business volume came from marketing farm products. The

Figure 1—Number of Cooperatives



Note: Total includes a small number of related service cooperatives.

Figure 2—Farmer Cooperative Memberships



rest were primarily farm supply cooperatives. Their numbers, however, have continued to increase since 1930, reaching a peak of 3,387 in 1959. In 1984, 61 percent of the 5,782 farmer cooperatives were engaged in marketing, 37 percent farm supply, and the remaining 2 percent related services.

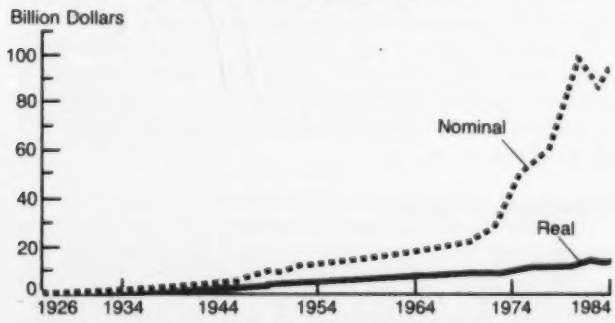
Memberships increased slightly after enactment of the Cooperative Marketing Act of 1926 (fig. 2). During the 1940s, however, memberships steadily increased, reaching a peak of 7.7 million in 1956. Since then, memberships have steadily declined. Memberships, however, exceed farmer numbers because many farmers belong to more than one cooperative.

Even though cooperative numbers and memberships have been declining, business volume has been increasing (fig. 3). During the Great Depression, gross business volume of farmer cooperatives dropped to $1.3 billion. It began to increase during World War II and continued into the early 1970s. In 1973, business volume totaled $34 billion and by 1981, $101 billion.

A major part of the growth in cooperative business volume during the 1970s was due to high inflation rates. In real terms, cooperative growth from 1972 to 1984 was 3.7 percent compared with a nominal growth of 10.7 percent compounded annually.

Trends toward fewer but larger and more complex farmer cooperatives and declining memberships will require ACS to continuously update changes within and among cooperatives; increase emphasis on providing information most useful to all concerned and in a timely manner; and improve coordination between ACS, cooperatives, and other organizations in collecting and providing information. ■

Figure 3—Cooperative Business Volume



ACS Research Aim: Increase Farm Income via Improved Cooperatives

James E. Haskell
ACS Director
Cooperative Marketing and Purchasing Division

The ACS research program has one primary goal—to enhance farm income through improved cooperative operations. Research efforts include a combination of studies by agency staff members and others through cooperative research agreements or contracts, primarily with researchers at land-grant universities. ACS focuses its research to identify, analyze, and assess the operational, structural, legal, financial, and social aspects of cooperation and provide basic information needed for informed decision-making by cooperative leaders and public policymakers.

The Capper-Volstead Act of 1922 accelerated the trend toward growth and development of farmer cooperatives. And with the research mandate contained in the Cooperative Marketing Act of 1926, it's not surprising initial efforts of the Division of Cooperative Marketing were largely historical and descriptive. Early studies focused on the most appropriate methods to use in organizing and operating cooperatives, how to effectively market crops and animals on a cooperative basis, and how successful cooperative business practices could be adapted to different commodities or geographical regions.

More than half the division's work in the late 1920's could be classified as research. But with its transfer in 1929 from the Department of Agriculture to the Federal Farm Board, research activities declined precipitously as organizational and credit problems took priority. Research on cooperatives was at a low point from 1929 to 1936.

Prospects for more effective research started looking up in 1937 with the inauguration of the Cooperative Research and Service (CR&S) Subdivision of the Cooperative Bank Division. Two additional reorganizations resulted in full division status for the CR&S Division when Farm Credit Administration became a part of USDA in 1939. Research on all aspects of farmer cooperatives was revitalized, staff upgraded, and emphasis placed on broad fundamental problems of cooperatives.

From 1939 to 1945, cooperatives were concerned with expanding farm production, scrambling for priorities in resource allocations, selecting least-cost sites, and similar war economy problems. CR&S reoriented research priorities to assist cooperatives in coping with such problems. Similarly, post-war adjustments in marketing, transportation, and tax and legal areas caused priorities to shift once more.

The division managed to cope with changing research requirements despite a rather inflexible organizational arrangement. This all changed in 1953. Farmer Cooperative Service was created as a separate entity within USDA. Timing couldn't have been better. Cooperatives were becoming much more complex and sophisticated, necessitating a parallel research program. Research emphasis shifted to advanced marketing techniques, horizontal and vertical integration, and financial structure.

Recent Accomplishments

ACS' research program is continually revised and updated to meet changing needs of cooperatives. The primary tools for planning research within the agency are annually updated 3-year plans. They reflect ideas from a range of sources including cooperative leaders, associations, and universities. The plans aren't designed to limit the agency's flexibility to swiftly change research priorities, but rather serve as a framework for research.

Much of the recent research effort has been directed toward analyzing the future role of cooperatives, cooperative finances, development of cooperative export capabilities, cost studies and cooperative performance analysis, and legal aspects of cooperation.

Future role studies in areas like grain exporting, oilseeds, red meats, dairy, dry edible beans, and live animal marketing, have assessed the strategic, structural, and operating position of cooperatives regarding their competitive environment and expected industry trends. These studies have outlined cooperatives' options. Recommendations have been catalysts for cooperative planning and action.

Financial studies have covered a range of topics including annual analysis of the financial status of the largest U.S. cooperatives, financial performance of dairy and grain cooperatives, and extensive work in equity redemption.

Export and Trade Research

In addition to the future role study for cooperative grain exporting, considerable export and trade-related research has been conducted in recent years. Export opportunities in East Europe and Pacific Rim countries have been analyzed. Use of export trading companies and export management companies for various cooperative exporting functions has been assessed.

Cost and performance studies have been made in a number of areas. In dairy bottling, dairy product manufacturing, and soybean and cottonseed processing, detailed cost studies have enabled cooperatives to assess the performance of their own operations, encouraged intercooperative planning and coordination, and provided valuable bases of information for subsequent work. Studies comparing the performance of cooperatives with other firms have been made in several areas including farm supply outlets, grain elevators, credit institutions, cheese plants, and fertilizer and chemical retailers.

Significant accomplishments in legal aspects of cooperation have included assessments of the legal liabilities of cooperative directors, State security law exemptions for cooperatives, a compilation of state cooperative statutes, and analysis of various cooperative tax issues.

ACS has continued research to maintain a thorough and useful base of information on cooperative activities in all commodity, supply, and operational areas. The information serves many uses, beyond the mere recording of historical U.S. cooperative involvement in agriculture. It provides valuable data for further research by the agency, cooperatives, universities, and other institutions.

An example is the existence of ACS data on cooperative petroleum operations and farmer use of cooperatives. Agency staff developed a mechanism for cooperative wholesalers to successfully claim refunds paid on oil overcharges during the period of oil price regulation. These cooperatives were awarded about $45 million as a result.

70 Research Projects

ACS has about 70 separate research projects underway. More than half are being carried out under cooperative research agreements and the rest by ACS staff members. This indicates the degree to which the

agency is able to leverage its expenditure of resources to maximize research activity. Some examples include analyzing the effect of changing farm characteristics on cooperative operations, cooperative joint ventures, simulation of cooperative equity financing plans, local-regional relationships in a federated system, case studies of alternative membership structures, cost differences in handling different sized patrons, cooperative fertilizer manufacturing and marketing, and cooperative exporting activities.

The research program will continue to evolve and meet changing needs and priorities of the cooperative community shaped by several economic and social forces. Many of them are being exerted today.

The face of production agriculture will continue to change. Production will become ever more concentrated in the hands of fewer, but larger farming units. Mid-sized family farms will continue to disappear. Financial and social stress associated with these changes will remain a part of the fabric of rural America for several years. Technological developments will also change the way crops and animals are produced. New techniques and inputs will replace those associated with traditional agriculture, or will at least alter the method or intensity of their use. Industrial structure of the food system will continue toward internationalization and dominance by conglomerate manufacturing and trading concerns.

Future Research Agenda

In planning for the agency's future research agenda, several interrelated areas appear crucial:

- Structuring cooperatives for the 21st century—Cooperatives are struggling with changing production, markets, finances, and competition. These pressures among others are forcing cooperatives to look at restructuring their organizations and the entire system. Cooperatives in all commodity and supply areas need to retrench and restructure, given our limitation, for longrun survival. Near-term decisions about structural change will shape the cooperative system for many years to come.

- Control of cooperatives—As they become larger and more diverse, the problem of maintaining ownership and control in the hands of farmer-patrons has become more difficult. Keeping an informed membership and well-trained competent board of directors has become more essential, yet complex and filled with risks. Delineation of rights and responsibilities of cooperative management and owner are even more crucial. Giving each party the tools it needs to do an effective job while maintaining the uniqueness of this form of business must be dealt with by all cooperatives.

- Financing cooperatives—The need for capital to finance cooperative operations and investments will increase. Given the dire financial situation of many existing and potential members, use of patron-contributed capital is severely constrained. Cooperatives as a group are still recovering from overuse of debt capital. They must therefore seek alternative capital sources and generation methods. The weakness of the Farm Credit System merely exacerbates this problem.

- Fairness and equitability in cooperatives—Ways must be found to ensure equitable treatment of members while adapting to the realities of the marketplace. Fair treatment of members is necessary. However, survival of a cooperative organization may depend on unequal treatment. ■

ACS Shares Cooperative Knowledge Through Staff, Publications, Speeches

Gene Ingalsbe
ACS Director
Information, Education

Anyone interested in agriculture-related cooperatives should know about Agricultural Cooperative Service (ACS). The USDA agency is the single, most comprehensive source—anywhere—of information, expertise, and educational materials about agricultural cooperatives.

Forty-five specialists are in residence (3 in field offices) with indepth knowledge covering every aspect of cooperative history, organization, and operation. Their knowledge is available on call and supported by the largest storehouse of information and educational materials on cooperatives in the Nation.

In authorizing ACS to provide direct assistance related to cooperatives, authors of the Cooperative Market-

ing Act realized help couldn't be made available to all farmers on an individual basis. However, they wisely took steps to ensure information gathered and knowledge gained from selective assistance would be made available to all farmers and the general public.

Five of six directives describing work to be done under the Act carry the words "disseminate, publish, or report." But additionally, as though to make certain there was no misunderstanding, the Act contains a separate directive to "promote the knowledge of cooperative principles and practices" and further spells out how that activity should be carried out. Continuing, the directive states "to cooperate, in promoting such knowledge, with educational and marketing agencies, cooperative associations, and others."

ACS, therefore, devotes a substantial amount of its resources toward information and education activities. These include: (1) this periodical you're reading; (2) reports of agency research and technical assistance projects; (3) publications and other materials developed purposely for educational use; and (4) speeches, presentations, or lectures given at conferences and seminars, one-to-one consultations, and articles for various types of publications.

Management Magazine

Farmer Cooperatives is in its 63rd year as a monthly magazine published for managers and key employees, directors, educators, and others with a keen interest in cooperatives. It is the only national magazine of its type providing a national perspective of what's taking place among cooperatives serving agriculture. Additionally, it reports the latest views of cooperative leaders and is a major vehicle for disseminating information gained from the agency's research and technical assistance activities.

Its popularity apparently has grown over the past 10 years—the magazine's requested subscriber list has risen from 10,000 to more than 17,000. It is sent at no subscription cost only to people working directly with agriculture-related cooperatives; $18 annually to others.

In reality, education and information is an underlying function of the entire agency. The function is carried out several ways. The most frequent is spending a few minutes in response to a telephone call, possibly followed up with a letter, short report, or one or more publications. Another frequent method is dealing with an individual on a one-to-one basis, either in ACS offices or elsewhere.

Research, technical assistance, and statistical gathering provide the major sources of information. These projects may be carried out by agency staff or through contract agreements with researchers on the staffs of various universities. They involve anywhere from one person to a team, ranging from working with a group of farmers to form a new cooperative to conducting feasibility studies of major cooperatives merging, expanding, or otherwise changing organization or operations. Research and analysis of statistics on all cooperatives provide a published record for further analysis for researchers, supporting materials for educators, or informational reference for the general public.

Other articles in this special section describe the types of projects in more detail, but a few of the significant resulting reports in the past 5 years include:

- four publications providing direct-contact information and profiles of cooperatives involved in direct exporting, and several others assessing opportunities and capabilities;

- a 715-page book of comparative analysis of 85 State incorporation statutes on 300 topics concerning farmer cooperatives;

- an analysis of director liability conducted through a cooperative research agreement with the University of Arkansas;

- comparative performance of cooperatives versus other firms with the same activities, conducted through a cooperative research agreement with Purdue University; and

- assessments of cooperatives' operations in dairy, oilseeds, farm machinery, grain, potatoes, wool, fishing, forestry, petroleum, plus others in progress.

Educational Materials

While any of the reports issued by ACS has informational or educational value, about half of the more than 100 titles typically available are publications written expressly for educational purposes.

These publications cover cooperatives from different perspectives and for differing audiences. Some are for

youth, some for specialists, and others for the general public. Some are instruction guides for teachers, elementary, secondary, or collegiate. Some focus on cooperatives' functional aspects, such as legal, finance, tax, management, and operations. Others range from profiling a single cooperative, to covering cooperatives by commodities handled, to overviews of cooperatives as an industry sector within agriculture. Five publications on basic cooperative information have been translated into Spanish.

Most of the agency's educational publications have been written by staff members with direct experience working with cooperatives.

Among the more successful materials are:

- 11 similar pamphlets covering basic cooperative information designed in a picture-caption format suitable for conversion to slides. Combined distribution is nearing 1 million copies;

- a four-lesson collegiate-level teachers' guide on understanding cooperatives, with illustrations in overhead transparency size (and augmented by a set of 35mm color slides that can be purchased through American Institute of Cooperation);

- a comprehensive publication on starting new cooperatives, based on experience of staff members working directly with farmer groups through the organizing process; and

- a 27-section series constituting a profile of farmer cooperatives in the United States (20 published, 4 in production, and 3 to be written).

ACS has completed one project and started another through cooperative research agreements to reflect changing technology and education techniques. A computer-assisted instruction program on the financial management of a cooperative, developed by Purdue University, is now available from Purdue. (See September issue.) A second agreement with American Institute of Cooperation, in work just getting underway, calls for developing a series of videotapes on basic cooperative issues.

Speaker/Consultant Bureau

Staff members periodically conduct specialized information and training seminars as an agency activity, or co-sponsor sessions with cooperative organizations and other Government agencies. Examples include:

- co-sponsoring a national cooperative bargaining conference for 30 years;

- rotating sponsorship of an economic planners' conference;

- special seminars or training sessions ranging from educating directors and key employees of new and emerging cooperatives to describing requirements and techiques for cooperatives seeking export business activities.

Foreign visitors wishing to learn about the agency's program and activities of U.S. agricultural cooperatives are regularly given briefings by staff members.

Agency personnel are frequent speakers at cooperative meetings; lecture in formal classroom sessions; and assist in planning meetings, workshops, and seminars. They also frequently contribute articles to cooperative and university publications, professional journals, and the public press. Typical examples of these activities include:

- Several staff members are continuing faculty members for the National Institute on Cooperative Education's (NICE) Workshop for Teachers and Agents and Employee and Collegiate Seminar. They and other staff members help plan NICE. Staff members also help plan and lecture at specialized programs offered by universities such as the Graduate Institute of Cooperative Leadership at the University of Missouri.

- Staff members are annual contributors and help plan the American Institute of Cooperation's yearbook. Two members are editors of the newly created *Journal of Agricultural Cooperation.*

- Three staff members are contributing authors to a collegiate textbook on agricultural cooperatives, to be field tested this fall.

Although ACS personnel respond to requests for appearances before groups, such as youth and young farmers, their role as a "trainer of the trainers" is most cost-effective. Likewise, the agency responds to individual requests for information and educational materials, but largely acts as a wholesale distributor. In a typical year, ACS receives nearly 3,000 publications requests for individual use or bulk orders for further distribution, totaling more than 100,000 copies. ■

Technical Assistance Historic Part Of ACS Program for Cooperatives

John T. Haas
ACS Director
Co-op Development Division

Technical assistance has been an important part of the program of Agricultural Cooperative Service (ACS) and its predecessors throughout most of its 60 years. This is a consulting type service provided individual cooperatives, groups of cooperatives, and producer groups wishing to form new cooperatives. All sizes and types are included—small locals, regionals, interregionals, and national organizations of cooperatives.

Technical assistance to existing cooperatives usually is short term and focuses on ways to improve their business operations or competitive position, and ways to improve services to members. Assistance to new producer groups focuses on analysis of economic feasibility of proposed new cooperative operations, and guidance in implementing those found to have a reasonable chance for success. In addition, assistance is provided to emerging cooperatives to develop business and management plans leading to self-sufficient operations. Development of new cooperatives is a difficult and time-consuming process, and generally requires ACS staff involvement over an extended period.

ACS provides technical assistance upon request from a cooperative's board of directors or a producer steering committee. Reports of technical assistance study findings usually are made only to requesting clients. However, in situations where study findings have broader application to other cooperatives, the agency may publish them if requesting clients consent.

During the first 3 years of USDA's cooperative work, most of the effort was devoted to research on organizational and management problems. After this work was transferred to the Federal Farm Board in late 1929, the emphasis was refocused. For the next 4 years, the staff was mainly engaged in providing technical assistance to cooperatives, chiefly those receiving loans from the board. Much of this assistance resulted in the organization of new regional cooperatives.

Between 1933 and 1976, the staff of ACS and its predecessors conducted more than 1,000 technical assistance studies for cooperatives. About 75 percent dealt with cooperative's business operations and financial problems, 16 percent addressed organizational and membership problems, and 8 percent involved feasibility of reorganization or cooperative mergers. Most of this merger activity has occurred since 1953. Dairy, grain, and farm supply cooperatives were the heaviest users of ACS' technical assistance services. They accounted for 62 percent of all requests.

Technical Assistance

During the past 10 years (1977 to 1986), ACS has received and responded to 354 requests for technical assistance. A much higher proportion of these requests were received from new producer groups and emerging cooperatives, 57 percent compared with 17 percent during 1953 to 1976. The request mix has varied widely. Existing cooperatives accounted for 75 percent of the requests in fiscal 1977, but only 24 percent in 1981.

As in the first 50 years, dairy, grain, and farm supplies figured heavily in ACS' technical assistance requests in the most recent 10 years. Together they accounted for nearly one-third. However, the largest number of requests (30 percent) were received from fruit and vegetable cooperatives and producer groups. Prior to 1977, only about 9 percent of requests involved fruits and vegetables. Dairy, grain, fruit and vegetable, and farm supplies accounted for nearly 75 percent of the requests from existing cooperatives, while fruits and vegetables dominated cooperative development requests (40 percent).

Other products or services involved in technical assistance requests include alcohol and biogas fuel, fish, floriculture products, forest products, rabbits, handcrafts, transportation, artificial breeding, and crop breeding research.

The increasing importance of cooperative development requests from fruit and vegetable producer groups results from development of mainly commercial vegetable production in new areas. Changes in Government farm programs and the present economic environment in agriculture have led many farmers to produce vegetables as alternatives to their traditional

crops, such as tobacco and more recently corn and soybeans. Vegetables haven't traditionally been produced commercially in these areas, so no viable marketing system existed. With little interest demonstrated by existing regional cooperatives, producers have sought ACS' assistance in establishing cooperatives to provide needed marketing services.

Varied Subject Areas

The problem area focus of ACS technical assistance studies has varied widely over the past 10 years. For purposes of discussion, these studies have been grouped into six areas:

- Eighteen percent of the studies dealt with ways to improve the efficiency or competitive position of existing operations, services, or departments of cooperatives.

- Eight percent examined the feasibility of a proposed facility, plant location, service, or policy in existing cooperatives.

- Seven percent analyzed the feasibility and opportunities for coordination or merger of operations of existing cooperatives.

- Fifty-seven percent dealt with cooperative development—the feasibility of organizing new cooperatives (43 percent), or development of business and management plans to help emerging cooperatives become self-sufficient (14 percent).

- Four percent provided a business or organizational analysis of an existing cooperative or cooperative system.

- Six percent examined the potential for, or role of, cooperatives in an area; or consisted of industry and other types of studies.

Some studies covered two or more of these areas. During the first 11 months of fiscal 1986, ACS staff participated in 66 technical assistance projects, 21 for existing cooperatives and 45 for new or emerging ones. These projects addressed such diverse problem areas as feasibility of cooperative mergers, interregional transportation coordination, restructuring cooperative operations, dairy plant costs, cottonseed processing cost and revenue analysis, cooperative education needs, and feasibility of new cooperative operations.

Technical assistance from ACS has made major contributions to the economic well-being of farmers and their cooperatives, as well as to other rural residents such as forest landowners, handcrafts producers, and fishermen. For example, over the past decade or so, the agency's technical assistance studies have provided the basis for:

- The formation of several regional or interregional cooperatives including: American Crystal Sugar and Southern Minnesota Beet Growers Association, two sugar beet processing cooperatives; American Cotton Growers, the only integrated textile manufacturing cooperative; and, Associated Milk Producers, Inc., a large, multistate regional milk marketing cooperative.

- Reorganization of the West Texas cooperative cotton ginning industry.

- Expansion of cooperative's international markets for specialty products.

- Development of more than 40 new cooperatives, including a cotton ginning cooperative, a peanut-shelling and marketing cooperative, and a marketing federation of several local fresh vegetable packing and marketing cooperatives.

Many other local, regional, and national cooperatives have benefitted from this assistance.

Agriculture is in a period of significant change and stress. It is having a severe impact on both farmers and their cooperatives. The need for economic analysis provided through ACS' technical assistance will be as great or greater as cooperatives decide on restructuring and adjusting operations to meet the challenges of the changing economic environment. Likewise, producer groups will continue to need cooperative development assistance as they consider the formation of new cooperatives to provide needed services.

Over the past 60 years, technical assistance to agricultural cooperatives has always had a high priority. It has been an important part of the program of ACS and its predecessors. Our challenge is to ensure a well-trained, experienced staff is in place to provide professional, high-quality, technical assistance in a timely manner to help cooperatives find viable solutions to increasingly complex problems. ACS staff has met the challenge in the past and is dedicated to meeting it in the future. ■

ACS: Work Yet To Be Done; Perspective for Future Role

Randall E. Torgerson
ACS Administrator

The 60th anniversary of the Cooperative Marketing Act of 1926 finds cooperatives and their producer-members in period of major financial stress and transition. Many agricultural producers, cooperatives, rural businesses, and financial organizations will not survive the decade.

In this environment, agricultural cooperatives are challenged to revitalize and reposition themselves to serve a declining number of larger producers and increasing number of smaller farms. These changes significantly affect the nature of cooperative membership, services, organizational, and financial structure.

In the food and farm supply industries, mergers and acquisitions among investor-owned corporations have produced manufacturing, processing, and marketing goliaths. They threaten the cooperative presence in the marketplace. In short, cooperatives' ability to continue to effectively serve their members is being challenged.

As the support and service agency for the Nation's agricultural cooperatives, Agricultural Cooperative Service (ACS) also is challenged by current circumstances. ACS is prepared to meet the challenge by continuing a mission as vital and relevant today as when it was set forth 60 years ago.

The Cooperative Marketing Act spells out clearly five missions for ACS. The agency is to do research on critical cooperative issues, provide technical assistance to existing and developing cooperatives, maintain a storehouse of cooperative history and statistics, and act as the primary educator on cooperative theory and principles. In performing these missions, it is in a position to spearhead the cooperative transition and is committed to helping cooperatives make the adjustments necessary to ensure effective, long-term service to their producer-members.

Cooperatives face many highly interrelated issues. Some directly result from the present crisis in agriculture. Others have been magnified by longer run changes. In addressing these issues, cooperatives must again answer some basic questions on what a cooperative is, who it benefits, and how it is organized and financed. ACS is prepared to help answer these difficult questions.

Future positioning of cooperatives for maximum efficiency and market power will involve optimal deployment of assets, elimination of unnecessary organizational and management tiers, and coordination among cooperatives to reduce counterproductive competition. All this must be done considering the diverse needs of a changing member profile and ways to finance needed changes. Structural readjustment must occur in an orderly fashion and within the framework of cooperative principles and practices.

Capital formation, a longstanding challenge for cooperatives, has become more critical as members ability to provide equity capital has diminished. This issue must be addressed while at the same time maintaining the owner-user character of cooperatives. Above all is the need to recognize member control follows financial control. Outsiders often view cooperatives as having a built in conflict of interest between payout in the form of price and patronage refunds to producers for products on the one hand, and nurturing the financial well being of the cooperative business on the other. Proper recognition of cooperatives' needs is an essential part of planning for maintaining financial integrity, and development and growth of the business.

Education is an integral part of cooperation. There is a need for a renewed effort in education about the unique characteristics of the cooperative form of business. Education of members, directors, employees, and the general public is a key to the successful retention of cooperative character as structure evolves. This is an increasingly difficult task when cooperatives hire management from outside the cooperative sector and memberships transfered to younger farmers with little or no knowledge of the legacy of cooperation.

Lack of knowledge and understanding of cooperative principles and practices is especially critical in times of crisis when "revisionists" question the relevance of cooperative philosophy and attempt to tamper with principles setting cooperatives apart. Knowledge and understanding also is critical when the balance of board/manager relations is violated, for example, board when members become involved in operations, or management attempts to dominate policy development without board participation and involvement.

Marketing Orientation

Cooperatives need to develop a marketing orientation to maintain market access and market share in an increasingly competitive environment. Cooperatives must identify and target member and customer needs on both the input and end-user sides of the market. This will entail a close look at the needs of an increasingly diverse membership and the ability of cooperatives to differentiate themselves through value-added activities, branding, and better services.

ACS has not only the opportunity, but also the responsibility to help cooperatives through the trying times of the 1980s and into the 1990s. The agency's immediate mission is to focus on emerging issues, those having broad implications for the future of cooperatives. This will be accomplished through the agency's primary activity, economic research, with attention to the macro perspective on the cooperative dimension of market structure.

Technical assistance to individual cooperatives helps identify specific problems and solutions. Analyses of cost structures, plant utilization, membership structure, and development of long-range financial and marketing plans and merger feasibility studies are a few elements of this important ACS program. The agency also has a legislative mandate to compile cooperative statistics and history and educate on cooperative principles and practices. Vigilance is needed to maintain an agency staffed with the expertise needed to carry out these research and technical assistance activities and other directives mandated by Congress.

ACS performs these functions on a scale belying a staff size of 60 and an annual budget of less than $5 million. Continuation of the agency's mission to help farmers improve their economic and social well-being will depend, however, on sufficient budget support to fully meet the needs placed on it.

Cooperatives face difficult times and tough choices in the immediate future. Numbers and size distribution of farms and farm operators will continue to change. Competition for farmer-customers on the input side and a share of the food and fiber market on the production side will increase. This will force difficult decisions within the cooperative community. These decisions will determine whether the mid-1980s will be a time of continued crisis or renaissance for agricultural cooperatives. Cooperative leaders must have vision in setting the course for a strong cooperative presence in the future. ACS is committed to helping cooperatives and their members make timely, prudent decisions to preserve cooperation as a tool for strengthening the economic well-being of America's farmers. ■

MFC Expansion Fishy

MFC Services, Madison, MS, cut the ribbon in July opening a $2.25 million catfish feed mill in Greenville. Anticipated annual production capacity is 60,000 tons, with potential expansion to 180,000. The mill will serve producers in Mississippi, Arkansas, and Louisiana. MFC owns five other feed mills in Mississippi and Louisiana including another one devoted to catfish feed.

Rice Growers Divest

Rice Growers Association (RGA) of California, Sacramento, has sold Pacific International Rice Mills, Inc., to fulfill a court-ordered divestment. U.S. Department of Justice had filed an antitrust objection to RGA's purchase 2 years ago. Pacific International Rice Mills was sold for $12.3 million to Busch Agricultural Resources, Inc., of St. Louis, a subsidiary of the brewing company.

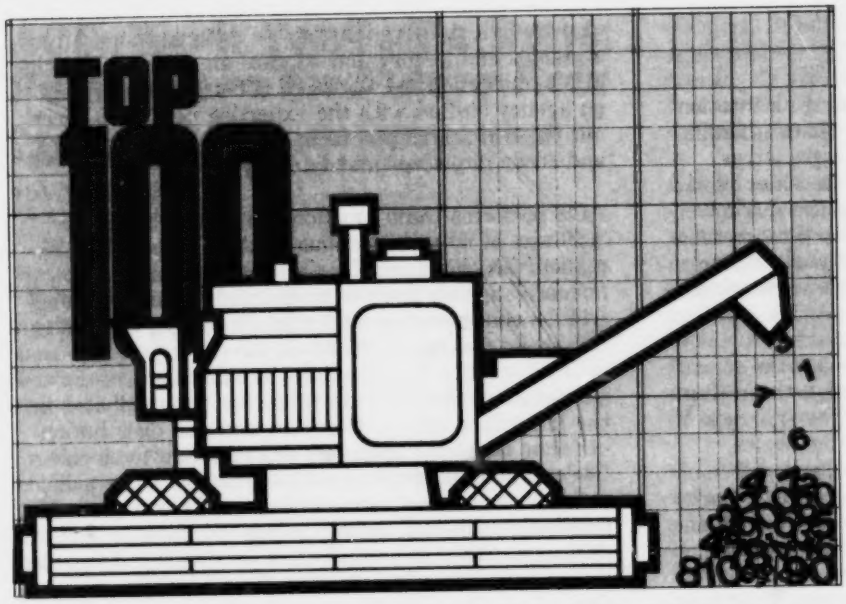
Eastern Gives Cows to Zoo

A pair of dairy cows has been donated by Eastern Milk Producers Cooperative Association to a refurbished city zoo containing a farm animal exhibit at Syracuse. The two registered dairy cows—Holstein and Jersey—will be housed in a special barn. Part of the intent is to bring urban residents in closer contact with farm animals.

Ocean Spray Buys Plant

To keep pace with rapid growth in its fresh grapefruit operations, Ocean Spray Cranberries, Inc., has purchased the Golden River Packing House in Vero Beach, FL. Included are 20 acres of land of which 16 are grapefruit groves to be leased. The cooperative had been leasing part of the plant. Ocean Spray label grapefruit was successfully test marketed last year.

Co-ops Continue Cutting Assets, Debt To Cope With Struggling Ag Economy



Editor's Note: This is the second article (see September 1986 Farmer Cooperatives) in the sixth annual financial profile of the Nation's 100 largest agricultural marketing and supply cooperatives. It analyzes changes in their combined balance sheet, use of debt and equity capital, and financial ratios. Reports in subsequent issues will cover changes in sources of borrowed funds, patronage refunds, per-unit capital retains, and sources and application of funds.

Operating conditions of farmer-owned cooperatives in 1985 continued to reflect the Nation's agricultural industry struggling with overcapacity, low commodity prices, falling land values, serious credit problems, and financial stress. Cooperatives adjusted their activities to remain competitive and improve operating efficiencies.

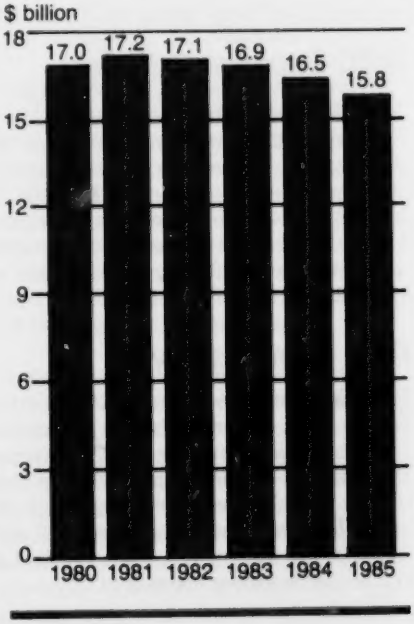
Donald R. Davidson
Jeffrey S. Royer
ACS Agricultural Economists

The year was marked by the largest decrease in assets since they peaked in 1981. However, this shrinkage in the combined cooperative balance sheet put them in a stronger financial position. Most of the asset decline was reflected in reduced short- and long-term debt. Equity capital stayed about the same.

Key changes during 1985 in assets, capital structure, and financial ratios of the 100 largest cooperatives follow:

- total assets were down 4.6 percent ($760 million) to $15.8 billion;
- current assets dropped nearly 6 percent to $8.6 billion;
- fixed assets (net property, plant, and equipment) decreased 4.1 percent to $5.2 billion;
- investments in other associations and Banks for Cooperatives declined 2.5 percent to $1.7 billion, but their share of total assets reached almost 11 percent, the highest on record;
- total debt dropped 7.2 percent ($455 million) to $5.9 billion;
- short-term debt fell nearly 9 percent to $2.3 billion;
- long-term debt dropped 6.1 percent to $3.6 billion, but its share of total debt climbed to 61 percent, the highest on record;
- total equity capital declined less than 1 percent ($37 million) to $5.6 billion;
- allocated equity (certificates and capital stock) rose slightly to $4.7 billion;
- unallocated equity decreased almost 10 percent to $847 million;
- total equity/asset ratio increased 1.4 percentage points to 35.5 percent;

Figure 1—Total Assets



- total debt/asset ratio fell 1.1 percentage points to 37.3 percent;

- total debt/equity ratio was down 8 percentage points to 105 percent;

- long-term debt/equity ratio dropped 4 percentage points to 64 percent; and

- current ratio was up from 1.35 to 1.38.

Assets Still Dropping

For the fourth consecutive year, total assets of the Nation's 100 largest cooperatives continued to decline to $15.8 billion after peaking in 1981 at $17.2 billion (fig. 1). Biggest dollar change on the 1985 combined balance sheet (table 1) was the $760 million decrease in total assets to $15.8 billion.

The decline was centered in three groups of cooperatives, farm supplies (13), grain (15), and diversified (7). Each of the six other marketing groups (dairy, fruits and vegetables, sugar, rice, cotton, and other products) had more assets last year than in 1984.

The 5.9-percent drop in current assets of $535 million was the main factor behind the decrease in total assets (table 1). Three groups (farm supply, grain, and diversified) reduced current assets while the other six groups increased.

Property, plant, and equipment (PP&E) declined $219 million (4.1 percent) in 1985 and was the other major factor responsible for the overall decrease in total assets. Six of the nine cooperative commodity groups reported lower fixed assets. The farm supply group showed the greatest reduction.

Figure 2—1985 Financial Status

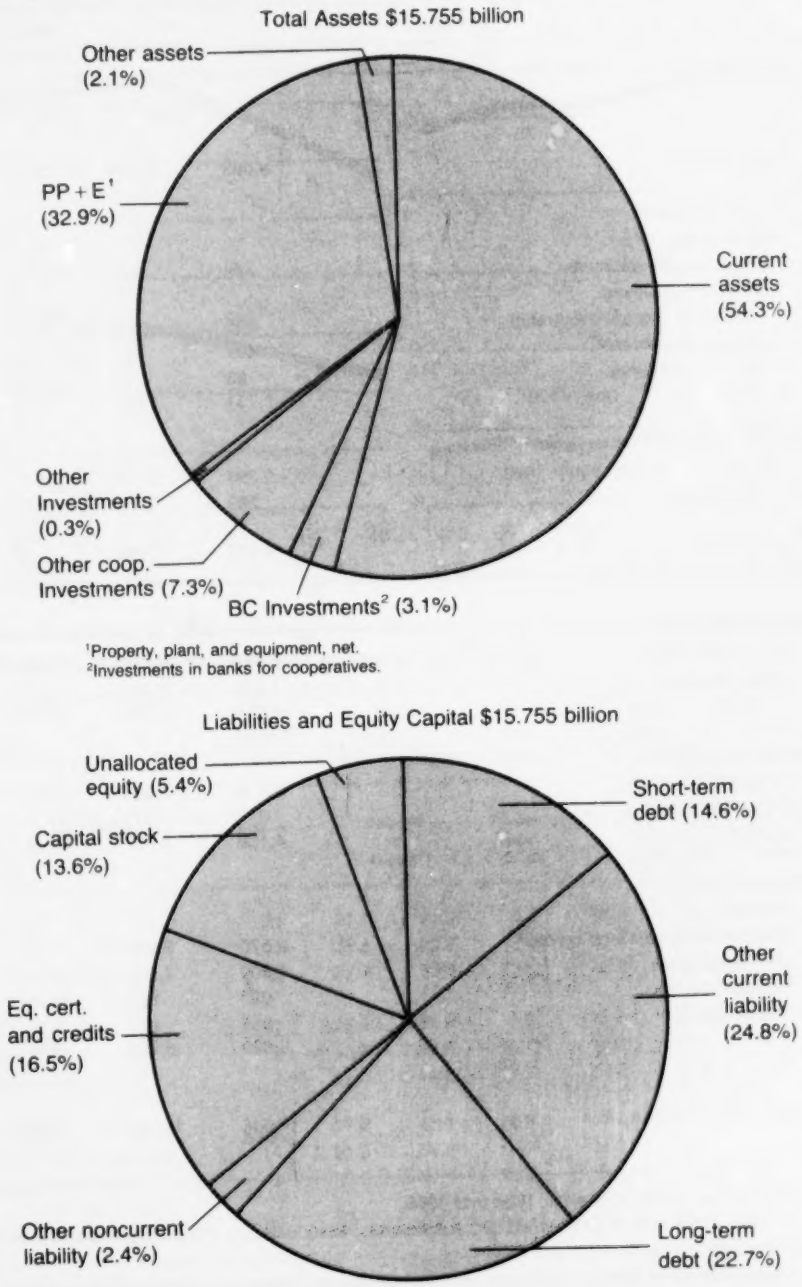


Table 1—Combined balance sheet[1]

Item	1984	1985	Increase (decrease)
	Million dollars		*Percent*
Current assets	9,089	8,554	(5.9)
Noncurrent assets:			
Investments:			
Banks for Cooperatives	486	480	(1.2)
Other cooperatives:			
Under 20 percent ownership	665	659	(0.9)
Above 20 percent[2]	497	497	0.0
Other investments	83	51	(38.6)
Total	1,731	1,687	(2.5)
Property, plant, and equip. (net)	5,396	5,177	(4.1)
Other assets	299	337	12.7
Total assets	16,515	15,755	(4.6)
Current liabilities:			
Short-term debt	2,519	2,295	(8.9)
Other liabilities	4,235	3,911	(7.7)
Total	6,754	6,206	(8.1)
Noncurrent liabilities:			
Long-term debt	3,815	3,584	(6.1)
Other liabilities	317	373	17.7
Total	4,132	3,957	(4.2)
Members' equity:			
Allocated:			
Equity certificates and credits[3]	2,570	2,606	1.4
Preferred stock	1,200	1,241	3.4
Common stock	923	898	(2.7)
Unallocated	936	847	(9.5)
Total	5,629	5,592	(0.7)
Total liabilities and equity	16,515	15,755	(4.6)

[1] Identical cooperatives used in 1984 and 1985.

[2] Includes investment in unconsolidated subsidiaries, associated (or affiliated) companies, and joint ventures (or partnerships).

[3] Includes allocated retained earnings and per-unit capital retains not evidenced by preferred or common stock.

The ratio of PP&E to total assets rose slightly from 32.7 to 32.9 percent in 1985. The current assets to total assets ratio fell from 55 to 54.3 percent (fig. 2). Although the Top 100 have reduced total assets since 1981, the share of PP&E has increased its share of the total from 29.4 to 32.9 percent. This compares with a simultaneous drop in current assets from 58 to 54.3 percent. The sugar co-op group had the highest (44.9 percent) PP&E/total assets ratio, followed by farm supply (39.3 percent).

Total investments of $1.7 billion were down $44 million (2.5 percent) in 1985, but had only a minor effect on declining assets of the Top 100 (table 1). Investment/total asset ratios varied from 3 percent for the sugar and other products groups to 15 percent for grain and diversified.

Investments in Class C stock and allocated surplus of Banks for Cooperatives decreased $6 million (1.2 percent) to $480 million (table 1). This was the only type of noncurrent investment some cooperatives had.

Investments in other associations representing less than 20 percent ownership dropped about 1 percent while those with 20 percent or more didn't change. Together, they represented 68.6 percent of total investments compared with 67.1 percent in 1984. The biggest change was in other investments which fell 38.6 percent to $51 million. They accounted for 3 percent of total investments in 1985 versus about 5 percent in 1984.

Assets Diverge

Although the Top 100 accounted for almost 57 percent of the assets of the 5,782 U.S. agricultural cooperatives in 1984, asset changes haven't

followed the same pattern. Assets of all associations rose in 1983 and 1984 reaching $29.2 billion.

Assets of *Fortune* magazine's top 500 industrial companies have grown every year since 1980. In 1985, their assets were $1,519.5 billion or 7.4 percent higher than in 1984. Assets of 12 of the 15 cooperatives ranked on the *Fortune* magazine's 1986 list decreased from the previous year. Assets of the 15 ranged from $89.8 million to $1.4 billion.

Assets of the Nation's largest industrial company and farmer-owned cooperatives moved in opposite directions in 1985. Assets of General Motors Corp. (GM) rose 22.5 percent to $63.8 billion, but those of the largest co-op fell 2.1 percent to $1.4 billion. GM's 1985 assets were about 47 times greater than the largest co-op, four times the Top 100 cooperatives combined, and more than double those of all farmer-owned cooperatives.

Total Debt Down Again

The 100 largest cooperatives reduced total debt considerably during the past 3 years. In 1985, total borrowed capital of $5.9 billion was 18 percent below the amount outstanding in 1980.

During fiscal 1985, short-term debt fell $224 million (8.9 percent) to $2.3 billion and long-term debt $231 million (6.1 percent) to $3.6 billion (table 1). Short-term debt has fallen every year since 1980 (fig. 3), but total debt didn't start its decline until term debt began dropping in 1983. Total borrowed capital consisted of equal amounts of short-term and term debt in 1980, but every year since term debt's share of the total has increased and in 1985 accounted for 61 percent.

Figure 3—Total Debt

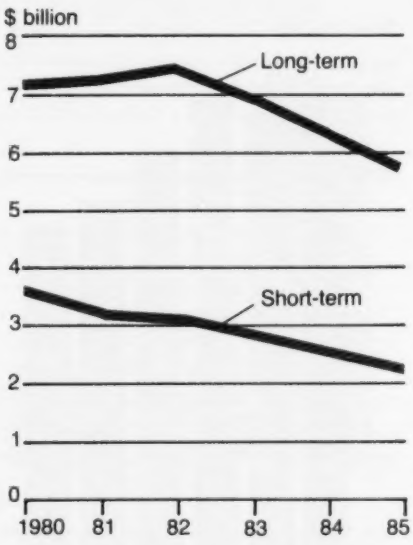


Figure 4—Member Equity

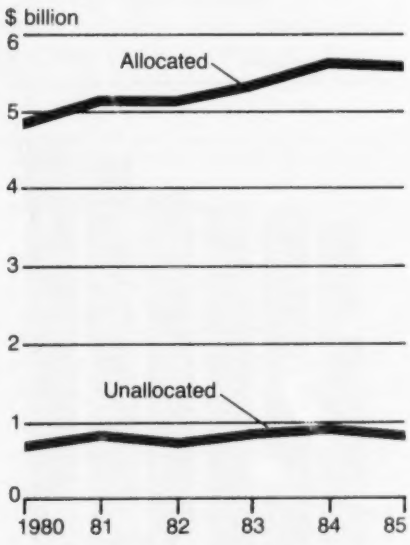
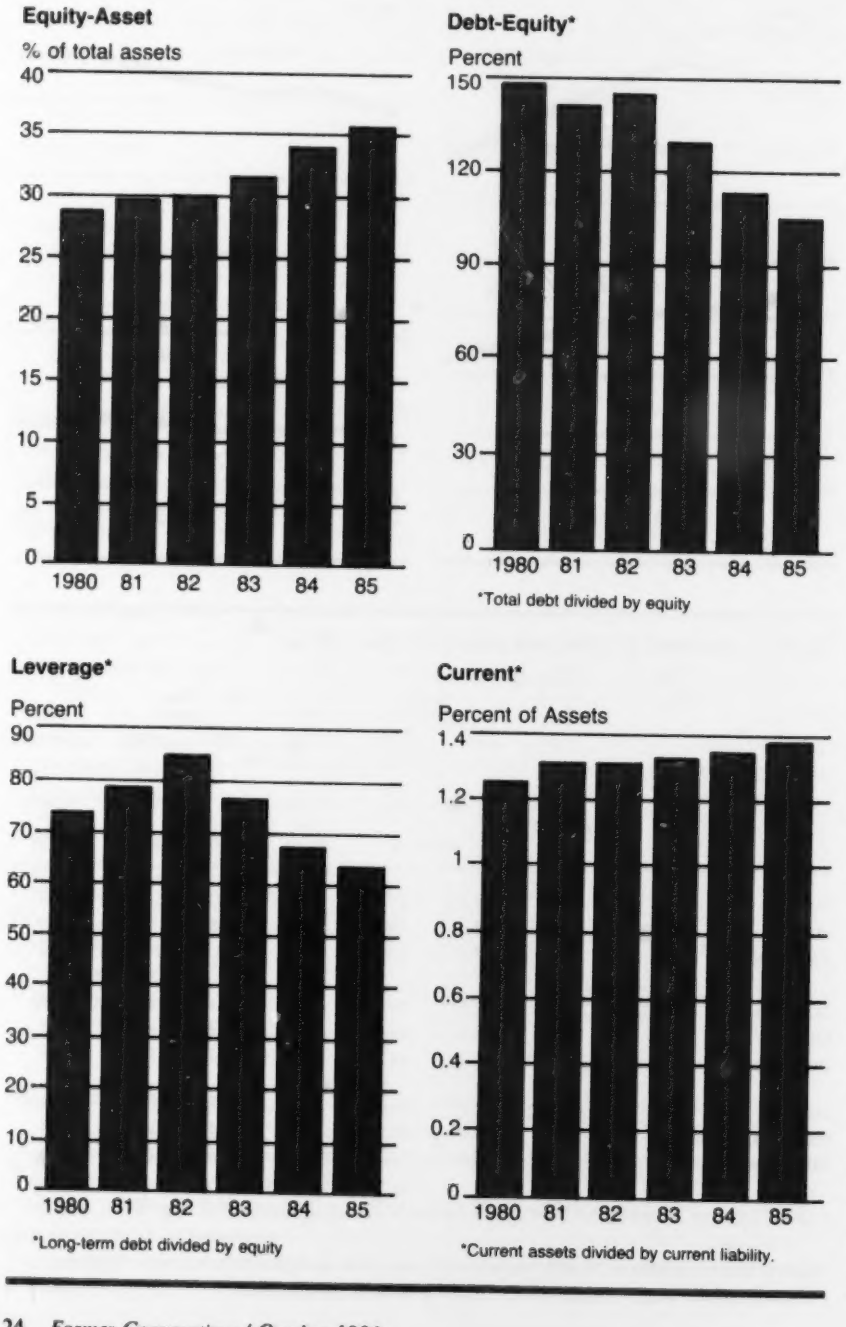


Table 2—Percent of debt and equity in total assets

Commodity group	Cooperatives	Total debt[1] 1984	Total debt[1] 1985	Incr. (Decr.)	Total equity 1984	Total equity 1985	Incr. (Decr.)
	Number	*Percent of assets*		*Percentage points*	*Percent of assets*		*Percentage points*
Dairy	32	21.7	21.9	0.2	36.3	37.4	1.1
Grain	15	35.3	33.3	(2.0)	35.4	37.3	1.9
Farm supply	13	37.4	33.8	(3.6)	40.3	43.5	3.2
Sugar	5	26.3	33.8	7.5	35.4	34.0	(1.4)
Rice	5	42.3	36.6	(5.7)	41.0	44.6	3.6
Diversified[2]	7	47.0	44.3	(2.7)	25.0	26.8	1.8
Cotton	6	37.2	45.8	8.6	40.7	37.7	(3.0)
Fruit and vegetables	14	53.9	54.6	0.7	24.2	24.6	0.4
Other products	3	46.5	57.4	10.9	39.4	35.0	(4.4)
Total	100	38.4	37.3	(1.1)	34.1	35.5	1.4

[1] Short- and long-term borrowed capital excluding other current and noncurrent liabilities.
[2] Marketing/farm supply cooperatives handling several commodities.

Figure 5—Selected Financial Ratios



Total debt decreased at a faster rate than total assets during the past 3 years. The debt/asset ratio dropped 1.1 percentage points last year to 37.3 percent (table 2) from the recent high in 1982 of 43.7 percent.

Total debt/asset ratios of the Top 100 commodity groups ranged from 21.9 percent for dairy (up 0.2 points from 1984) to 57.4 percent for other products (up 10.9 points). Only four of the nine commodity groups had lower ratios, but they accounted for 60 percent of total outstanding borrowed capital.

Net Worth Strengthens

Members' equity fell less than 1 percent in 1985 to $5.6 billion (fig. 4). Net worth in 1985 was still 15 percent higher than the $4.9 billion posted in 1980.

All of the 0.7 percent decrease in total equity came from unallocated equity—capital not allocated to members on a patronage basis. Allocated capital—equity certificates and capital stock—rose 1.1 percent to $4.7 billion, but was more than offset by the 9.5-percent fall of unallocated equity to $847 million.

A major factor contributing to its decrease was the absorption of 1985 losses. Unallocated capital's share of total equity was 15.2 percent in 1985 versus 16.6 percent in 1984 (fig. 4).

Continued reduction in total assets and borrowed capital shows up favorably on the combined balance sheet of the 100 largest cooperatives. The equity/asset ratio (fig. 5) rose 1.4 percentage points in 1985 to 35.5 percent (table 2) because total debt to assets dropped 1.1 points and other liabilities to assets, 0.3 point.

Figure 6—Percent of Total Assets by Size Group
1984 vs. 1985

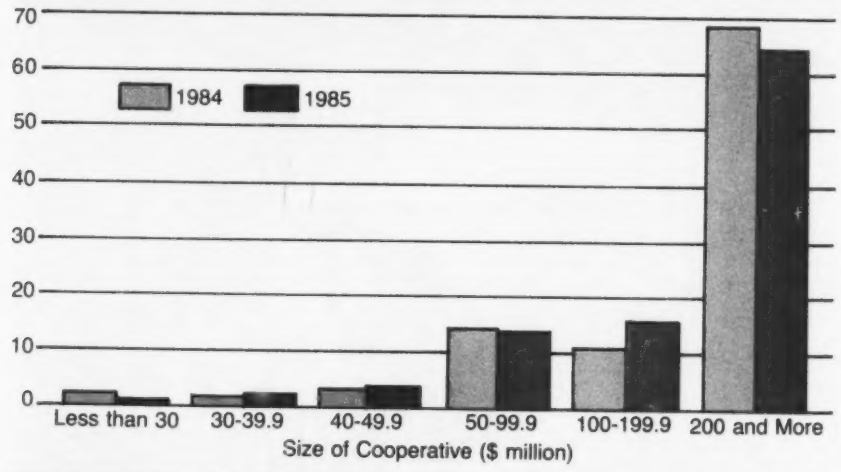


Table 3—Distribution by size of assets

Assets	1980	1981	1982	1983	1984	1985
Million dollars			*Number of cooperatives*			
$200 and more	24	23	22	25	23	21
$100 - $199.9	11	16	15	16	12	18
$50 - $99.9	31	34	36	30	32	29
$40 - $49.9	8	5	3	10	11	12
$30 - $39.9	9	8	9	5	8	10
Less than $30	17	14	15	14	14	10
Total	100	100	100	100	100	100

Table 4—Range in assets by co-op type

Assets	Locals (16)		Regionals (80)		Interregionals (4)		All cooperatives (100)	
	1984	1985	1984	1985	1984	1985	1984	1985
	Million dollars							
High	97.8	117.6	1,602.8	1,359.7	1,014.4	935.7	1,602.8	1,359.7
Median	38.4	39.5	80.8	84.2	359.5	332.7	71.9	78.0
Low	15.3	15.0	13.5	15.6	95.6	81.0	13.5	15.0

The ratio has climbed since 1980.

Six of the nine commodity groups increased their equity/asset ratios last year, ranging from 0.4 percentage point (fruits and vegetables) to 3.6 percentage points (rice).

Other significant balance sheet ratios also indicate a stronger financial condition. The total debt to equity ratio fell 8 percentage points in 1985 (fig. 5). Long-term debt to equity declined 4 points to 64 percent. The ratio has declined 21 points since 1982. The current ratio was up slightly last year from 1.35 to 1.38.

Assets Highly Concentrated

Assets are highly concentrated in a group of cooperatives with assets of at least $200 million (table 3). They accounted for 64 percent of total assets in 1985 compared with almost 69 percent in 1984 (fig. 6).

The group also accounts for a substantial percent of the total assets of all cooperatives. In 1984, 23 associations with assets of at least $200 million represented 39 percent of the $29.2 billion in total assets of all cooperatives.

Most members were in the $50 million to $99.9 million category (table 3). Cooperatives in the three smallest size categories (assets up to $49.9 million) accounted for less than 7 percent of total assets in 1984 and 1985 (fig. 6). Assets of individual cooperatives among the 100 largest in 1985 varied from $15 million to $1.4 billion. The 1984 range was $13.5 million to $1.6 billion (table 4).

Since 1980, no more than three Top 100 cooperatives have had assets of at least $1 billion. By contrast, all of the 100 biggest industrial corporations listed by *Fortune* were in the $1 billion-class. ■

Hofstad Urges Co-ops to Gather Under Umbrella of Cooperation

Editor's Note: Coverage of NICE highlights was made possible by a team of communicators directed by AIC's Mary Kay Bidlack: Jerry Kirk, Tennessee Farmers; Jane Butler, Countrymark; James Erickson, Union Equity Co-op Exchange; Carol James, Food System Associates; Gene Clifford, National Rural Electric Association; Kathy Gill, Pennsylvania Association of Farmer Cooperatives; Terry Nagle, Land O'Lakes; and George Martin and Pat Duffey, ACS.

Ralph Hofstad, president of Land O'Lakes, Inc. (LOL), Minneapolis, MN, urged more than 1,300 delegates attending the 59th annual National Institute on Cooperative Education (NICE) in Knoxville, TN, to "come under the umbrella of cooperation," to develop more viable enterprises for serving members in the future.

The keynoter encouraged cooperative leaders to "forget the outmoded, ill-conceived and conflicting ideas," preventing cooperatives from achieving "Better Times Through Efficient Cooperatives," the central theme for the American Institute of Cooperation-sponsored meeting.

"To achieve 'Better Times,' each of us must do a better job of living up to a vital cooperative principles—cooperation among cooperatives," said Hofstad.

He listed five-steps cooperatives can use in measuring their business effectiveness:

- What are the trends and driving forces for the industry?
- What is the cooperative's competitive position?
- What will it take to succeed?

Ralph Hofstad, president of Land O'Lakes, Inc., invites cooperators to join him under his umbrella of cooperation. Hofstad was the keynoter at NICE.

- How can the requirements for success be fulfilled?
- What structure, financing, and implementation plan is appropriate?

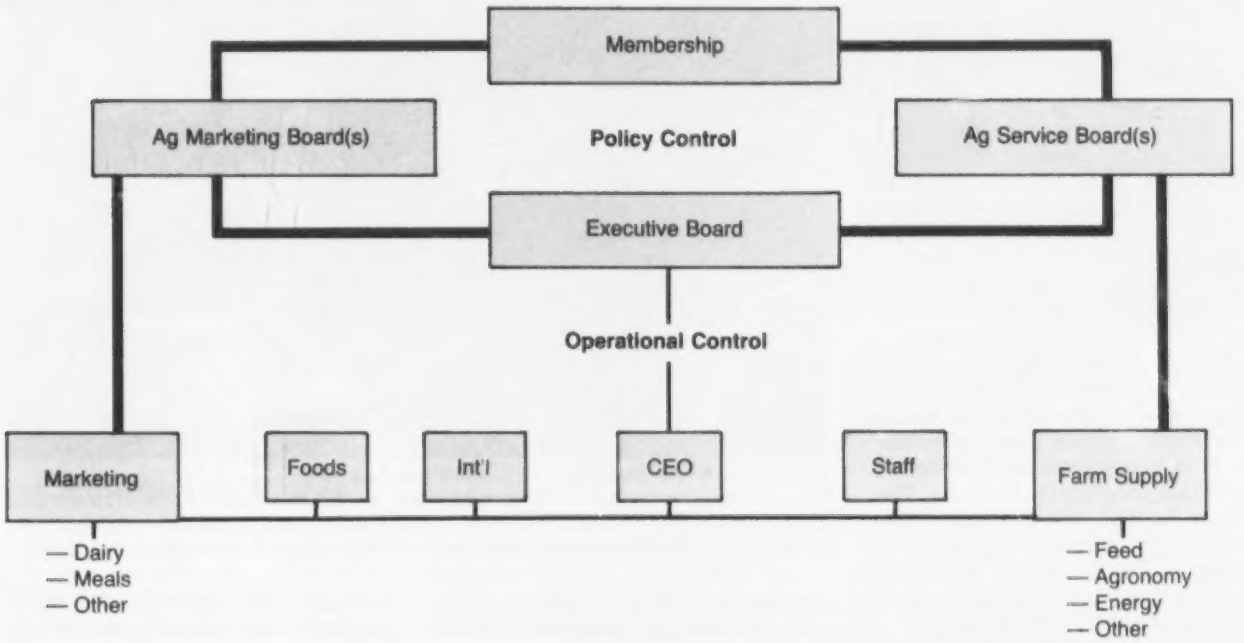
After this examination of the industry marketplace, Hofstad said LOL uses an internal checklist to make certain each business opportunity is being systematically considered and evaluated.

- Does the opportunity offer significant savings?
- Does the opportunity improve our competitive position?
- Will the venture impair our balance sheet?
- Can the right structure be developed to operate efficiently and maintain member control?
- Do we have the resources to be competitive?

"In developing your own business analysis, I caution you to avoid letting emotional biases determine business strategy," he said. Hofstad indicated a more careful and thorough investigation of the business environment, followed by a checklist review like LOL uses, might have helped cooperatives avoid such past costly mistakes as Energy Cooperative, Inc., and Farmers Export Company.

He cited examples of areas in which cooperatives have done or still need to do an effective job of restructuring and repositioning. In particular,

Umbrella Concept



he noted dairy and fertilizer industries and the Farm Credit System. These aspects of the cooperative system must be alerted "immediately" if cooperatives are to avoid losing "more of their already diminished capacity to meet the economic needs of farmers."

Hofstad concluded by suggesting one structural method of bringing cooperatives together under what LOL calls its umbrella concept. This structure, with individual governance boards providing policy direction for specific areas of cooperative activity, "offers great flexibility for consolidations and joint ventures to take place on either side of the business. Only if we carefully consider our operating environment and then agree to take action, will we meet the challenge of achieving 'Better Times Through Efficient Cooperatives.' ■

Co-ops Need to Gain Competitive Advantage: Agway's Fogerty

If cooperatives can capture a competitive advantage, they'll gain a powerful momentum to keep doing things that work for them, Agway's Art Fogerty commented during a NICE sectional meeting on balancing cooperative philosophy and economic realities. Fogerty said success of today's cooperatives is built on sound strategy and action.

"Strategy is built on accurate beliefs about competitive advantage and how we capture the advantage," he added. Also addressing the session where Peter Vitaliano of the National Milk Producers Federation and Dr. David Barton of Kansas State University.

The competitive edge was one of four principles Fogerty said apply to both cooperatives and non-cooperatives. "You should have a preoccupation with your competitors. Think about them all the time." Fogerty said, cooperatives also should have a bias toward growth, be creative and ruthlessly exploit any advantage, and be diligent in choosing support and financial policy.

As for the future, Fogerty sees joint ventures between cooperatives and non-cooperatives as well as the formation of "multi-co-ops," or cooperatives coming together.

"Probably the biggest changes will be market segment adjustments," he said. "Short shifts are occurring right now."

Vitaliano's condensed list of cooperative principles generated considerable interest among the attendees—member-user ownership, a key organizational characteristic of a cooperative; member-user control; operation at cost; and limited return on capital.

Vitaliano said economic realities demand cooperatives either generate the greatest possible economic returns to their member users or be replaced by other business organizations. Cooperative education also is important, Vitaliano said, so members, directors, and management can make intelligent decisions. The result, he said, will be cooperatives operated on a more business-like basis.

Barton, who chaired the session, said economic reality has taken its toll on cooperatives and other agriculturally related organizations. "Some people are saying within the next 10 years, we will see a reduction in the number of cooperatives by about one-third," Barton said, or about the same ratio of farmers who will be retiring.

Co-ops Should Unite Efforts on National Scale: Benschneider

"We must recognize our cooperatives are still attempting to do business much like they did 30 or 40 years ago," said Donald Benschneider, chairman of the board of Countrymark, Inc., Columbus, OH. He spoke on a NICE panel examining cooperative structures. "We must maintain the purity, strength, and intentions of cooperative principles and practices. But, I believe we also must be willing to look seriously at how we interpret those principles...in the agricultural arena in which our farmers must function and participate."

Participants in the university/cooperative relations conference at NICE probe alternate cooperative structures. In front, from left, are David Holder, USDA's Cooperative Extension Service; Randall Torgerson, USDA's Agricultural Cooperative Service; Donald Benschneider, Countrymark, Inc., and Roger Ginder, Iowa State University.

Benschneider called for agricultural cooperatives to unite efforts on a national basis. He said, "We must design efficiency, streamline the system, redefine our roles as individuals and what our responsibilities ought to be, and look ahead toward unifying the cooperative system on a national basis. Failure to do these things, realistically, will lead to the decline of the cooperative position in this country."

Dealing with emotional issues, he said, is the most difficult thing in restructuring cooperatives and accomplishing mergers and business combinations. "We do have the opportunity to reposition our cooperatives. The time is right, but we must take the leadership to make the new role of the cooperatives the very best possible and the most important role in agriculture."

Tom Townsend, corporate senior vice president, Mid-America Dairymen, Inc., Springfield, MO., observed, "In my 30 years in the dairy industry with cooperatives, all but 6 have been working with merging or combining cooperatives. Thirty years ago, we had 3 million dairy farmers," Townsend said, compared with 300,000 today. Half of them produce 85 percent of all the milk for the U.S."

Townsend said, "We don't really care about business structure as long as it does what we want it to do, namely to provide the function needed at the least cost and enhance the profitability of the dairy farmer." Mid-America Dairymen, he said, uses a number of structures including joint ventures, part owner-

ship of processing facilities, and subsidiaries to accomplish the job of marketing milk for its 11,000 farmer owners.

Townsend underlined Benschneider's thoughts about a national cooperative effort, saying it applied to some of the things in the dairy industry, as well as the farm supply and grain marketing industry in which Countrymark operates. Townsend anticipates more dairy cooperative mergers, with a possible outcome of using one or a few cooperative brand names to market dairy products nationally.

The annual summer National Institute on Cooperative Education attracted a wide variety of cooperative leaders, educators, cooperative employees, young farmers, and youth, part of whom are shown here between sessions on the University of Tennessee campus.

World Events Affect Farmers, Co-ops; Independence Fades

Rugged independence of yesterday's farm families is fading, and today's farmers and their cooperatives must be aware of such changes facing them in the future. Bob Bergland, executive vice president of the National Rural Electric Cooperative Association (NRECA) and former U.S. Secretary of Agriculture, traced some changes during remarks to young farmers at NICE.

"Your modern farms are affected by events over which you have no control. The old independence no longer works. The oil crisis of several years ago fed galloping inflation in this country, and nothing has been the same since. Your farms were bound to be strongly affected, because American agriculture runs on petroleum energy."

Bergland said many governments throughout the world have established national food policies because "they have discovered the advantage of increasing yields. They stimulate production at home, and they can do that very well now because the U.S. no longer has a monopoly on agricultural technology. Basically, such food policies encourage domestic producers to provide everything needed at home. That shrinks the world need for imported supplies."

He said commercial opportunities for U.S. agricultural exports remain good, but increasingly in a north-to-south pattern. He predicted growth in trade to help countries of the southern hemisphere provide nutritional variety in their diets.

He said "there is a tremendous good will" toward cooperatives in the developing countries of the world. This could provide a strong base for the broadened international cooperative relationships to help develop new markets for American agricultural production.

Farm cooperatives also are changing their thrust to meet the amended needs of today's farm situation. He said yesterday's "captive market provided by a compact and committed membership is no longer available. New services and improvements in old services are essential if today's economically pressed members are to be satisfied and retained."

He pointed to personal experiences of earlier years to demonstrate "rigid unwillingness to change" among some small church congregations in the rural sector. "They simply refused to combine," he said, "so they were forced to do it at last through attrition. When one pastor left or died, they could not replace him. Then they merged. The same is proving true of many of our smaller local cooperatives.

"We need to study closely today to learn if there are some things a cooperative can do better than anyone else. We must look for these kinds of opportunities and then commit absolutely to top-quality service."

Gerald Pepper, Iowa Institute of Cooperation, quickly checks with Don Graham, manager of Sunray (TX.) Cooperative, while Clifford Busekist, Springfield Farm Credit Banks, makes introductory remarks during the discussion on the role of members and their cooperative directors at NICE.

Co-op Leadership Requires Balancing Communication With Understanding

The leadership roles of cooperative members and boards of directors requires a delicate balance of communication and understanding of responsibilities if a cooperative is to perform at maximum efficiency. Speaking during a sectional meeting at NICE, Gerald Pepper, executive director of Iowa Institute of Cooperation, and Don Graham, general manager of Sunray (TX) Cooperative, saw a need to improve communications.

"Success of the cooperative system is dependent almost entirely on our ability to overcome barriers to communication," said Pepper. "Based on my experience," said Graham, "those cooperatives who have a well-informed board of directors and membership also experience fewer operating problems."

Pepper and Graham both recommend concentrating on improving the quality of cooperative annual meetings, developing nominating committees with standards for selecting nominees to the board, and developing the sense of trust for cooperatives to function effectively.

"Cooperatives can serve the people only as long as the people serve the cooperative," said Pepper in commenting on the need for mutual trust. Pepper urged cooperative boards and members to participate in "teamwork by agreement" with each group understanding their roles and responsibilities. "A cooperative is no better than the people it serves and we must make certain each gets the rewards it deserves," Pepper concluded.

Work for United Voice in Washington, Young Farmers Advised

Young farmer couples should work together with the national commodity and farm organizations to make their voices heard in Washington, DC, advised a four-member panel discussing legislative and commodity issues with the couples attending NICE.

A question by Randy Saylor, a young Ohio dairyman, set the tone. "Whenever a job needs to be done in agriculture, we have groups who want to go off in several different directions. We have a lot of good cooperatives represented here, and there are a lot of other good organizations, too. What can we do to get our groups together to have some power in Washington?"

Responding was panelist Wayne Boutwell, president of the National Council of Farmer Cooperatives (NCFC). He urged young farmers to continue relying on organizations such NCFC. "Those of us in Washington try to work on a professional basis to represent farmers to the maximum extent possible," Boutwell said. "A large percentage of the time, organizations such as ours are working together and support the same positions."

Jim Barr, executive secretary of the National Milk Producers Federation, said "dairying must come to grips with a national program. We must recognize we have one national party for dairymen. We must pull together to provide the dairy farmer with the price for product he needs to stay in business."

Carl Schwenson, executive vice president of the National Association of Wheat Growers, said he

remembers the same question being posed 18 years ago. "I have seen a lot of progress since then on the commodity level and a lot of cooperation between commodity and farm organizations. Economic circumstances, as well as changes in leadership have brought that about." Schwenson said organizations have learned to pool their talents and resources, "and generally, I think you would be proud of what farm organizations are doing for you in Washington, DC."

Keith Hurd, representing National Cotton Council of America, suggested everyone commit to buy only American-made products. "By buying at home, we provide jobs for Americans. That helps all industries, and makes possible a strong market for the products you and other American farmers produce."

Emmanuel Pelaez, ambassador to the U.S. from the Republic of the Philippines, left, is introduced to Farmer Cooperatives *magazine and other ACS publications on display at NICE by Don Thomas, president of Agricultural Cooperative Development, International. The ambassador urged greater rural developments efforts in his country by U.S. agricultural cooperatives.*

Philippine Ambassador Asks U.S. Cooperatives For Development Help

Emmanuel Pelaez, the Philippines' new ambassador to the United States, called for a special conference among cooperative leaders of both Nations to forge a "new program of development" on a "people-to-people" basis.

"The future of the world and developing countries lies in the philosophy of cooperation being embraced by the millions of those still living in poverty," he said in remarks at NICE.

The 70-year-old ambassador has been actively involved in developing rural cooperatives in his country for more than 40 years. He wrote the legislation, which together with the technical assistance of U.S. rural electric cooperatives and the financial aid of the U.S. Government, brought electrification to remote areas of his nation.

He cited long-term relationships with U.S. "rural electric cooperative missionaries" as being crucial forces not only in bringing economic development and jobs to his people but also in aiding democratic development—"transferring the technology of democracy."

During the rule of former President Marcos, cooperatives were among the only functioning democratic institutions in the country, Pelaez said. However, excessive government interference with their operations and corruption kept them from achieving their full potential.

He asked American cooperatives to help rebuild his nation. "In the work of recovery, I would give the highest priority to voluntary organizations." People who undertake development assistance for the "sheer love of helping others are more effective than governments." Cooperatives can build on long-term, existing ties through the National Rural Electric Cooperative Association, Agricultural Cooperative Development International, and World Council of Credit Unions.

The past 2 years have been years of widespread depression in the Philippines. Despite this, cooperatives have been instrumental in raising farmers' income by 54 percent, but still only $300 a year per family. Under the new Aquino administration, the ambassador predicts even greater strides.

Referring to the poverty of his country's citizens, Ambassador Pelaez chided U.S. cooperative leaders attending the session. "You are worried about hard times. You ain't felt nothing yet." He urged Ameri-

can cooperatives to seek a "new moral dimension by once again responding to the challenge of your great President John F. Kennedy, "Ask not what your country can do for you, but what you can do for your country."

Farm Credit System Plans to Regain Financial Strength

Farm Credit System leaders speaking at NICE reaffirmed plans to seek financial help from Congress to weather current problems brought on largely by the agricultural depression. H. Brent Beesley, president and chief executive officer of the Farm Credit Corporation of America (FCCA), said the Farm Credit System now evolving will meet key requirements for an effective agricultural credit delivery system designed from scratch today.

Such a system, he said, would be borrower owned and controlled to ensure its dependability as a farm lender and would be profitable to help guarantee its long-term viability. By controlling expenses and managing its credit and interest rate risk carefully, it also would be competitive.

The job, however, won't be easy, he conceded. After record banking industry losses of $2.7 billion in 1985, the System has posted red ink figures of $206 million and $762 million in the first two quarters of 1986. Nonaccrual loans now total $7.6 billion, up from $5.9 billion in the first quarter, and the value of property acquired primarily through foreclosure has passed the $1 billion mark.

Steve Montgomery, Farm Credit Banks of Louisville president, challenged the agency's direct involvement in System bank interest rate decisions and other management-related issues.

In a similar vein, Beesley said, "In a world where interest rates are changing almost every day, it is unrealistic for the...system to be required to submit formal applications to its regulator before interest rates can be adjusted in any given part of the country."

Focusing most of his comments on challenges faced by the Banks for Cooperatives (BCs) in serving local and regional cooperatives, Ray Moss Tucker, past board chairman of The Farm Credit Council, said these borrowers are unique and have different needs from farmers. That situation, combined with competition BCs face from other financial institutions and cooperatives spanning geographic areas served by two or more banks whose policies and procedures often differ, suggests a need for a BC structure different from other segments of the System, he said. Cooperatives and the BCs both "could be losers," he said, "if steps aren't taken soon to address this issue."

Co-ops Must Face 'People Changes' in Serving Membership

Many things need to be done differently in today's fast-changing world, and cooperatives must be alert to this new need to better serve their members. Robert Kabat, NRECA's director of management services, sounded this caution during remarks at NICE.

"The rate of world population increase is accelerating rapidly...mostly in the Third World countries where there is a desperate lack of jobs, hope, and opportunity. Don't think for a moment this isn't going to affect us." Kabat said change also is taking place at home. Great increases in life expectancy are transforming us into an older society. The fastest growing segment is the 75- to 85-year-old group.

"This promises remarkable new dimensions for health concerns and medical services, and foretells a considerable strain on our Social Security program." He said 44 percent of today's work force in the United States "is composed of women, completely changing the face of our employment picture in this country."

He said cooperatives must be aware of these "people changes" to stay tuned with membership needs for services. "We need to understand who we are talking to and what they want." Kabat discussed changes revealed for rural electric co-ops recently by an extensive membership survey. Surprisingly, it showed only 12 percent of today's rural electric members are practical farmers and 31 percent consider themselves blue-collar workers. More than one-fourth, the second biggest group, are retired persons.

"We were concerned to learn only 22 percent of the members attended their cooperative's annual meeting within the last 3 years, and 43 percent said they knew little about the co-op. Only one-third felt directors were doing an effective job."

The survey has stimulated some changes in rural electric co-op relationships with members, he said. "Some now make it a point to arrange personal visits with every new member to explain the cooperative, its structure and operation, and the member's role in helping to control. Some are polling groups of members regularly and randomly to ask opinions about services. Management people are beginning to mix with members."

He urged increased care to ensure "the best people in rural America" are given places on cooperative boards. He said the common claim cooperative boards are "closed corporations" must be disproved actively. New nominating procedures also can do much to change member perception of this process.

"The most numerous age group in today's cooperatives is composed of the baby-boomers," Kabat said. "They are the first complete television generation. They have changed views and values, a different educational experience, and strong tendency to challenge and question. They are the core of our membership numbers. We must learn to understand their present needs and wants. We must listen to them."

Don Schriver, right, chairman of American Institute of Cooperation from Milk Marketing, Inc., chats with Carl Utterstrom from Arla Dairy Cooperative, Upsalla, Sweden, a former AIC scholarship award winner while a student at the University of Missouri years ago and a speaker on the 1986 NICE program.

Co-ops Must Aim Programs Toward Commercial Ag

To survive and serve future farmers, cooperatives must abandon traditional methods of defining and marketing services, two speakers of widely differing backgrounds told participants at NICE. As we continue to evolve into an information society, cooperatives must target programs and services to the agricultural integrators and agricultural agglomerators, according to Tom Veblen, president of Food System Associates, Washington, DC.

These two categories of commercial agriculture are the growing sectors, with traditional family farms taking the brunt of the shrinking farm base, Veblen said. Integrators are visible in such industries as broilers, turkeys, citrus, wine, and pineapple.

Agglomerators include large-scale dairy, cattle, and diversified feed crop producers. Each type is a "technology leader" using science and a corporate management style to ensure financially sound agribusiness operations.

Frank Leuthold, professor of rural sociology, University of Tennessee, said agribusiness must adjust programs "so information they disseminate will better serve the American farmer."

Leuthold said many farmers will make on-farm trials of new technology and determine for themselves if the innovation is applicable for their business. If the technological innovation fails the on-farm test, it's unlikely neighboring farmers will even try to experiment. Therefore, it is important that cooperative employees be as skilled and knowledgable as the farm operator, Leuthold said. Otherwise, employees can't provide needed information to ensure successful trials.

Co-op Execs Believe Environment to Put Premium on Management

Chief executive officers from two of the nation's leading regional cooperatives agreed the future operating environment for co-ops will put a premium on management. Speaking about future cooperative management at NICE were William Allen, Jr., president and chief executive officer (CEO) of Union Equity Cooperative Exchange, Enid, OK, and Kenneth Bear, executive vice president and chief executive officer of GROWMARK, Inc., Bloomington, IL. Both agreed co-ops' immediate priority was survival.

Elaborating, Allen said survival alone wouldn't necessarily mean success in achieving the priority. "Success ultimately will be measured in terms of our collective ability to maintain an effective cooperative

presence in the marketplace. If we ever assume our cooperative automatically will survive as an effective presence in the marketplace, we are in trouble...If we adopt the idea, we have quickly established a built-in, ready argument against doing anything differently in a world where change is the rule of the day."

Baer noted the future impact of change will be even more severe than in recent years. "Allowable margins for error will be even more narrow. The penalty for mistakes will be swifter and surer." He cited three key areas for cooperative management—matching the organization's financial capabilities with the highest priority member needs, becoming more efficient, and achieving better results through improved performance of co-op personnel.

"The cooperative management team faces the task of a juggler" in matching financial resources with member needs and the co-op's mission, Bear continued. "We must not overextend our resources, but stick to what we do best."

Cooperative management in the future will rely increasingly on the management team concept "to bring together all available expertise, talents, and abilities in the organization to get the job done," Allen said. "Cooperative managers who expect to build on success know people are the foundation for doing so." Also important will be a commitment to principles related to the business and effective performance. "Member loyalty is only as strong as a members' confidence in the cooperative's ability to get the job done."

An important indicator of long-term prospects for success in any business is the presence of an effective employee appraisal system. Having one in place and basing employee rewards on performance is "a good sign the business knows where it's going and how it wants to get there and has communicated those goals to its people," Allen said.

People skills of co-op managers will be critical in determining future success, Baer and Allen agreed. Baer stressed the need for management communication skills in dealing effectively with employees, members, and boards of directors. Both said skilled cooperative management wasn't enough to assure future success. "Board members need to work as hard at being professional in their roles as directors as managers do in their roles as employees. The best and most successful cooperatives in the long run will be those with strong and effective management and equally strong and effective boards of directors," Allen said.

Baer said future cooperative management teams will need to be more agile and leaner. "Decisions will need to be made more quickly. There will be fewer levels of management so they will be closer to action on the firing line. Delegation will be essential."

'Don't Give Up,' Mississippi Dairyman Urges Cooperators

"Don't give up!," Mississippi dairy farmer Buckey Jones challenged cooperative leaders at NICE. Stressing cooperatives are farmers' greatest hope for survival, Jones challenged members, management, and directors to remain committed, have courage, and presevere.

"Those of you who think other businesses are concerned about farmers in any way other than profits they can put on their bottom line are whistlin' 'Dixie' on Grant's tomb," Jones said. "You'll never be heard."

The cooperative system, on the other hand, offers hope and deserves the loyalty of everyone concerned. "We can look to our cooperative system as an avenue to pull us out, carry us forward, serve its members, and do what's necessary for the survival of agriculture. Cooperatives can and should be an extension of our families. They deserve the loyalties sometimes we don't give them," Jones added.

The dairyman said cooperatives should stop "shooting each other in the foot. Do Production Credit Association folks support marketing cooperatives? Do marketing cooperatives support Federal Land Banks and Banks for Cooperatives? Do supply cooperatives support marketing cooperatives, Federal Land Banks, and Banks for Cooperatives?

"This is family we're talking about," Jones stressed. "This is something we must do today. We're in a fight for survival. Let's decide whose side we're on." Jones practices what he preaches when it comes to supporting cooperatives. Some people, he said, brag about being big stockholders in automotive companies or banks. "I'm a big stockholder in PCA and FLBA. I'm served by an electric power association and am a member (and director) of a milk marketing cooperative called Dairymen, Inc. I also do some business with my local supply cooperative."

Jones said he'll continue to "dance with the one who brung me to where I am today. My cooperatives have earned and deserve my loyalty and support."

AIC Renames Officers, Picks Trustees, Introduces Ag Co-op Research Journal

All officers of the board of trustees for American Institute of Cooperation (AIC) were re-elected during the recent National Institute on Cooperative Education (NICE) at the University of Tennessee in Knoxville—Chairman Donald Schriver, Vice Chairmen Robert Bryan and Steven Easter, Secretary-Treasurer Clifford Busekist, President David Thomas, and Assistant Treasurer Helen Walters.

Thirteen new trustees began their term of office at the board's reorganizational meeting—Curtis Anderson, Sunkist Growers, Inc.; Tom Gist, Southern Farmers Association; Ray Humberd, University of Tennessee; Charles Kucharik, Rockingham Poultry Marketing Cooperative, Inc.; Eugene Marti, Mid-America Dairymen, Inc.; Vern McGinnis, GROWMARK, Inc.; Rod Rommel, Farm Credit Services of Northwest Wisconsin; David Sain, Arkansas Electric Cooperatives, Inc.; Don Sherrick, Kansas Farmers Service Association; Carlyle Teague, Cooperative Council of North Carolina; Jules Todt, St. Louis Farm Credit Banks; Don Wickens, Jackson Bank for Cooperatives; and Stacy Williams, South Carolina Electric Cooperative Association.

Yearbook, Journal Published

American Cooperation 1986, AIC's annual yearbook edited by Mary Kay Bidlack, has been published and includes the first volume of *Journal of Agricultural Cooperation*. Both Editor Jeffrey Royer and Associate Editor James Baarda are with Agricultural Cooperative Service's (ACS) Cooperative Management Division. Copies of the combined yearbook-journal are available from AIC ($12).

The refereed journal provides a forum for the review and exchange of research results among individuals in universities, cooperatives, and Government. "We believe this and future issues will have a positive effect on the growth of research in the field of agricultural cooperation," said AIC President David Thomas.

AIC received a $10,000 Mutual Service Fund grant from MSI Insurance through National Cooperative Business Foundation to fund the inaugural issue. It contains articles by Charles Knoeber and David Baumer, North Carolina State University; Martin Fischer, St. Paul Farm Credit Services; Karen Moore, Katie Junge, and Robert Ginder, Iowa State University; James Jones, University of Idaho; and Arvin Bunker, ACS.

Authors of invited papers are Harold Breimyer, University of Missouri-Columbia; Thomas Gray, ACS; and Attorney John Copeland, Roy, Marshburn & Lambert. James Russell, Oklahoma State University, authored a book review in the journal on *Agricultural Cooperatives, Their Why and How*, by Glynn McBride.

Research Awards

Research papers by seven graduate and undergraduate students were chosen best in AIC's annual award program. Winners were announced at NICE. Brian Brace, Iowa State University, won a $600 award for his master's thesis, "Agricultural Cooperative Losses: Their Influence on Earnings Allocation." Roger Ginder was his adviser. Ann Stern, Cornell University, placed second and won a $400 award for her master's thesis, "An Analysis of Cooperatives With Successful Marketing Strategies." Bruce Anderson was her adviser. Judging was conducted by ACS staffers James Haskell, James Roof, and Jeffrey Royer.

Five undergraduates, who won $100 awards for their term papers, were: John Baumeister, "Grain Cooperatives Past, Present, and Future," Grant Hellwarth, "Financial Stress in Agriculture—A Challenge for the Farm Credit System," and Cheryl Schininger, "The U.S. vs. Borden Company Case," all Ohio State University students advised by Robert Jacobson; Bradley Mortland, "What Is Minnesota Corn Processors?," Southwest State University, adviser Eugene Kunda; and David Valada, "Performance of Fruit and Vegetable Cooperatives as a Result of the Capper-Volstead Act of 1922—Yesterday, Today and Tomorrow," Michigan State University, adviser Larry Hamm. Judges were J. Warren Mather, retired ACS economist, and Homer Preston, retired director of ACS' Cooperative Management Division.

Pick Youth Trustees

In the election for youth associate trustees, Martha Kate Bell, Friendship, TN, and Darren Roger Kittleson, Mount Horeb, WI, were chosen to represent AIC as youth speakers for cooperatives at a variety of meetings throughout the country in the coming year. They also will represent youth on the AIC Board of Trustees. Alternates chosen were Martha Ann Pilliard, Middleton, MO, and William Lee Hollis, Bushnell,IL. They were selected from 420 other youths for the honor during the youth scholar program at NICE.

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MANAGEMENT TIP

A Board in the Know Makes Its Co-op Grow!

Editor's Note: This column is derived from remarks by Thomas H. Gist, Jr., chairman of the board of Southern Farmers Association, at the summer managers' meeting at Monroe, LA.

Managers who can capitalize on the changes taking place in American agriculture have unparalleled opportunities between now and through the turn of the century. But they need to make a major change in attitude and place more emphasis on sound business management.

In the 1970s, many local co-ops made money simply by being in the right place at the right time. That won't work anymore. In the future, there will be predominately only two types of farms, part-time farmers and producers with large commercial operations of several thousand acres.

The contraction of agriculture will demand better business management for those who survive. Farmers will begin to look beyond trade areas of local cooperatives to secure production supplies. Large local co-ops and large farmers may be in more danger than the smaller ones if they do not adapt to the need for sharper business management skills.

In past decades, business and marketing skills weren't all that important to survival. In the years ahead, being successful will mean being an informed business manager. Farmers will no longer look to Government to solve their problems. Government programs are, at best, a short-term remedy.

Farmers and managers, who are serious about what they're doing, must use the latest advances in technology, business, finance, marketing, and information. In the past, farmers were taught to grow more and to do it more efficiently. Now, they must be taught how to make money from that production. The farmer or manager not using efficient accounting methods and management skills, won't benefit from the opportunities offered in technology and computers.

In making decisions, farmers and managers must utilize a wealth of information available through a multitude of sources. Developments in biotechnology and chemistry will be a major benefit to farmers through the turn of the century. New chemicals, for instances, are much more effective and safer, with application rates as little as one-tenth ounce active ingredient per acre. Precise timing and application of new chemicals also will be important.

It isn't what you have or where you are that's important, but rather the way you react to a situation. So in today's co-op supply environment, let us respond to this situation. Reaction is negative. Responding is positive.

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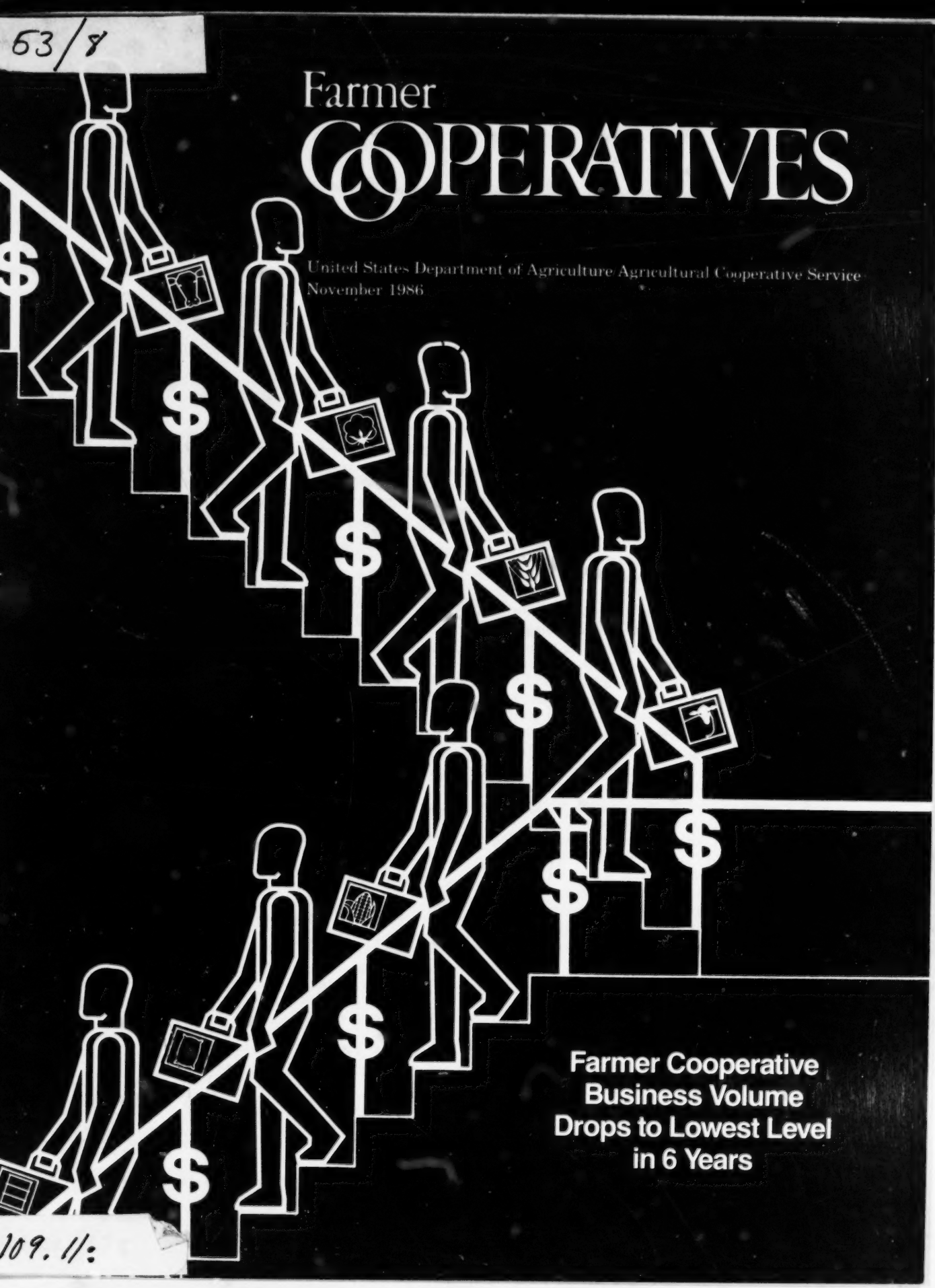
Farmer COOPERATIVES

United States Department of Agriculture Agricultural Cooperative Service
November 1986



Farmer Cooperative Business Volume Drops to Lowest Level in 6 Years

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The Importance of Credibility

No person in a cooperative has more responsibility for the integrity of an organization than a director. Policies that guide management and identify goals of the cooperative are set by the board of directors and approved by members. If problems arise not being adequately addressed by management, directors are responsible and accountable for making changes in top management so corrective action is forthcoming.

Endless problems arise when directors attempt to crossover the policymaking line and themselves engage in day-to-day management activities of cooperatives. In fact, the pathway of board involvement in management is littered with cooperative failures. The proper lines of board/manager relations must be carefully delineated and strictly adhered to in order to provide the proper system of checks and balances within the cooperative system.

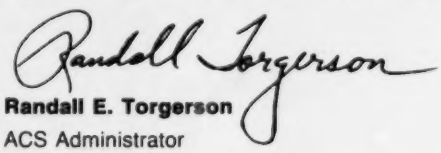
In a recent talk to grape growers, Clyde Rutherford, farmer-president of Dairylea Cooperative, Syracuse, NY, has said the single most important factor that sustains an organization through good times and bad is PRIDE. Among the ingredients associated with it are: l) a sense of history, 2) a feeling of comradeship and belonging to a particular group, 3) the "visible image" associated with physical things that identify the organization to the public and 4) credibility.

One of the key elements of membership pride is credibility. People must believe you. Organizational representatives must "deal only in facts—not half-truths, untruths, fantasies, or happy talk." If directors, managers or employees say something, it must be so. This responsibility cannot be taken lightly. It cannot be delegated.

One of the most important areas for credibility to be established is in the financial affairs and reporting of an organization. Directors should insist on clean balance sheets and straight up accounting to members. In most instances, establishment of a board audit committee to whom a certified auditor reports independently provides a good check and balance in the cooperative. Insistence on an auditors' letter published with the annual report's financials is also a sign of good practice and financial integrity.

Similarly, directors must carefully watch producer pay prices to see that more is not being paid out relative to what is being taken in through final product sales. Inordinate pressure from the board to pay "the highest" price or more than a cooperative business can afford will ultimately impair owners' equity and weaken the balance sheet.

In short, cooperatives need to tell it like it is and in a way that builds credibility and through it pride in the organization. When a loss in pride is incurred, there is often an uphill battle to undue the damage.



Randall E. Torgerson
ACS Administrator

Farmer COOPERATIVES

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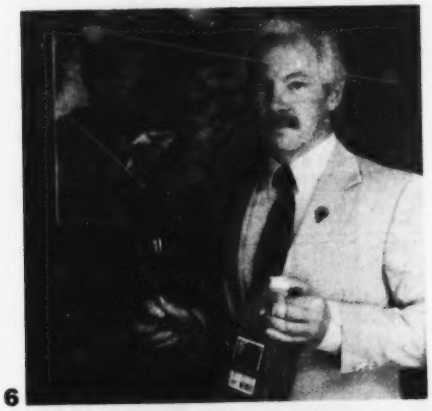

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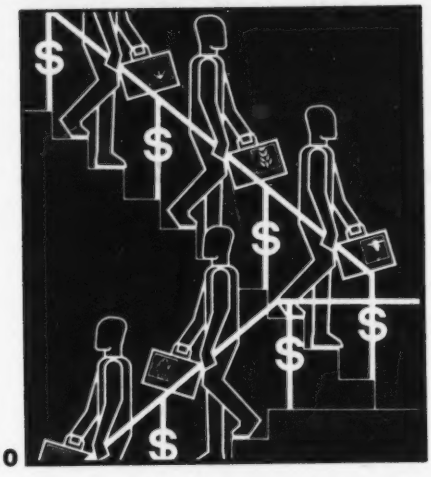

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Farmer Cooperative Business Volume Drops to Lowest Level in 6-Years

Editor's Note: Information for this report was gathered and compiled by the Statistical and Automated Data Processing Group in the Cooperative Management Division of Agricultural Cooperative Service—Ralph Richardson, Celestine Adams, Katherine DeVille, Beverly Rotan, and John Stutzman.

Business volume for the Nation's agricultural cooperatives was $64.3 billion in 1985, the lowest in 6 years, while net income of $767 million was the lowest in 9 years of comparable data. Compared with 1984, volume was down 12 percent from a record $73 billion, and net income down 23.9 percent from $1.01 billion. Volume in 1979 was $56.3 billion and net income was $1.8 billion in 1976.

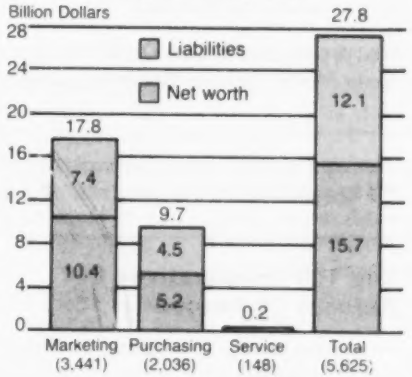
Dr. Randall E. Torgerson, administrator of USDA's Agricultural Cooperative Service (ACS), attributed the business decline to lower farm prices and decreased demand for farm exports.

A significant drop in grain volume of more than $5 billion had an impact on 1985 State data, collected every other year. California became the leading State in volume with $5.8 billion, replacing Iowa ($5.7 billion). Iowa, the biggest cooperative grain marketer, had been the leading State in total volume since 1977 and holds the State record of $7.5 billion set in 1981.

Total cooperative business volume includes marketing—value of farm products sold; farm supplies—sales of fertilizer, chemicals, fuels, feed, and other supplies to members and patrons; and receipts from related services such as trucking, storage, ginning, and drying.

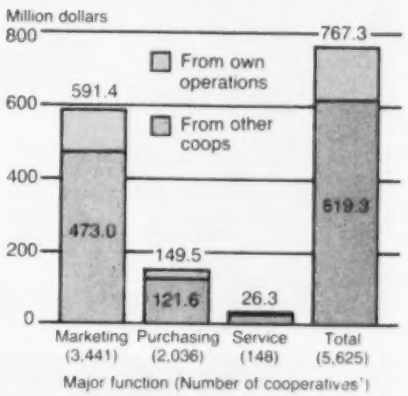
The number of cooperatives dropped from 5,782 to 5,625, continuing a historical trend, Torgerson said. The most recent decline reflected mergers, consolidations, acquisitions, and cooperatives going out of business.

Fig. 1—Selected Balance Sheet Data For Farmer Cooperatives, 1985



'Many cooperatives are multiproduct and multifunctional in operations and are classified according to predominant commodity or function indicated by business volume.

Fig. 2—Farmer Cooperative Net Margins, 1985



'Data for cooperatives operating on a pooling basis are not included. Many cooperatives are multiproduct and multifunctional in operations and are classified according to predominant commodity or function indicated by business volume.

Memberships of 4.8 million were down less than 1 percent from 4.84 million. Memberships are higher than farm numbers because many farmers belong to more than one cooperative. Memberships per association averaged 853, up from 838.

Marketing volume of $46 billion was down 15.6 percent from $54.6 billion. Dairy products was the leading commodity, replacing grain and soybean products. Though dairy volume was down 8 percent at $15.4 billion, the grain group was down 25.8 percent to $15.3 billion. Another major product, cotton, declined 33.4 percent. Biggest drops in volume were for tobacco, 43.8 percent, and wool and mohair, 39 percent. Dry edible beans and peas volumes increased 20 percent.

Farm supply volume of $16.6 billion was down only 1.9 percent from $17 billion. Petroleum, the leading supply product, rose 5.9 percent. But other major supplies declined—feed, 14.3 percent; seed, 13 percent; fertilizer, 2.7 percent; and farm chemicals, 0.7 percent. Services related to the farm business was a record high $1.6 billion, up 6 percent from $1.5 billion.

Farmer cooperative assets of $27.8 billion represented a 4.8 percent drop from $29.2 billion. Liabilities dropped from $17 billion to $15.7 billion. Net worth, or member and patron equity, dipped slightly (1.1 percent) from $12.2 billion to $12.1 billion. However, the proportion of assets financed by equity increased from 41.7 percent to 43.4 percent.

State data showed Minnesota as the continuing leader in number of cooperatives (566) and memberships (423,983). North Dakota was second in cooperatives (391) and Iowa second in memberships (310,023). ■

Table 1—Cooperative business volume by major commodities, 1985[1]

Commodities	Cooperatives handling[2]	Business volume[3]
	Number	*$1,000*
Products marketed:		
Beans and peas (dry edible)	49	144,209
Cotton and cotton products	459	1,646,556
Dairy products	394	15,365,464
Fruits and vegetables	370	5,058,043
Grain, soybeans, soybean meal and oil	2,139	15,290,769
Livestock and livestock products	378	3,347,757
Nuts	33	919,412
Poultry products	59	956,586
Rice	58	751,032
Sugar products	44	1,505,403
Tobacco	33	302,140
Wool and mohair	170	19,937
Miscellaneous	96	729,875
Total farm products	[4]3,925	46,037,183
Supplies purchased:		
Building materials	1,775	396,499
Containers	489	149,550
Farm chemicals	3,204	1,450,803
Farm machinery and equipment	1,590	356,055
Feed	3,099	3,120,726
Fertilizer	3,237	3,341,571
Meats and groceries	410	153,002
Petroleum products	2,579	5,800,524
Seed	3,120	510,339
Other supplies	3,688	1,361,625
Total farm supplies	[4]4,288	16,640,694
Related services:		
Trucking, cotton ginning, storage, grinding, locker plants, misc.	[4]3,883	[5]1,613,489
Total business	5,625	64,291,366

[1]Preliminary. Totals may not add due to rounding.
[2]Due to sampling procedures used in 1985, the numbers are based on the 1983 survey results of farmer cooperatives.
[3]Volume excludes intercooperative business.
[4]Total adjusted for duplication arising from multiple activities.
[5]Charges for services related to marketing or purchasing but not included in the volume reported for these activities.

Table 2—Farmer Cooperative Numbers, Memberships, and Business Volume by State[1]

State	Headquarters in State	Memberships in State	Business volume
		Number	*$1,000*
Alabama	80	70,736	759,755
Alaska	1	16	[2]
Arizona	14	63,670	389,121
Arkansas	102	72,963	883,513
California	233	70,958	5,832,593
Colorado	73	35,892	689,834
Connecticut	5	7,330	167,048
Delaware	5	11,657	104,287
Florida	66	32,903	1,797,367
Georgia	21	62,437	1,041,170
Hawaii	28	3,073	[2]
Idaho	60	39,521	461,526
Illinois	269	258,753	3,971,879
Indiana	82	199,119	1,952,879
Iowa	373	310,023	5,665,274
Kansas	233	218,662	2,153,350
Kentucky	92	229,808	626,104
Louisiana	70	19,240	573,091
Maine	7	12,371	242,171
Maryland	24	63,484	562,653
Massachusetts	16	8,253	511,079
Michigan	100	90,355	1,723,739
Minnesota	566	423,983	5,429,162
Mississippi	142	92,125	903,945
Missouri	110	240,771	2,069,456
Montana	120	44,764	356,290
Nebraska	236	185,486	2,365,915
Nevada	5	384	36,695
New Hampshire	2	4,711	[3]
New Jersey	23	10,254	291,555
New Mexico	15	4,240	59,208
New York	200	121,127	2,206,974
North Carolina	34	142,198	634,302
North Dakota	391	159,572	1,700,195
Ohio	151	149,065	1,806,989
Oklahoma	140	100,149	766,891
Oregon	50	48,195	994,248
Pennsylvania	84	69,453	1,797,748
Rhode Island	1	1,215	[4]
South Carolina	17	40,609	215,165
South Dakota	222	136,508	1,214,275
Tennessee	101	134,824	573,157
Texas	387	120,058	2,255,938
Utah	39	21,258	242,768
Vermont	6	12,290	406,066
Virginia	101	188,597	962,866
Washington	122	98,729	1,626,918
West Virginia	44	49,586	140,967
Wisconsin	342	308,491	4,234,904
Wyoming	20	6,907	73,971
Foreign	n/a	[5]249	[6]616,364
UNITED STATES	5,625	4,796,991	64,291,366

[1]Preliminary. Totals may not add due to rounding.
[2]Included in dollar volume of California.
[3]Included in dollar volume of Maine.
[4]Included in dollar volume of Pennsylvania.
[5]Cooperative memberships outside the United States.
[6]Includes cooperative sales outside the United States, petroleum sales to domestic military installations, and sales of certain products not received directly from member-patrons.

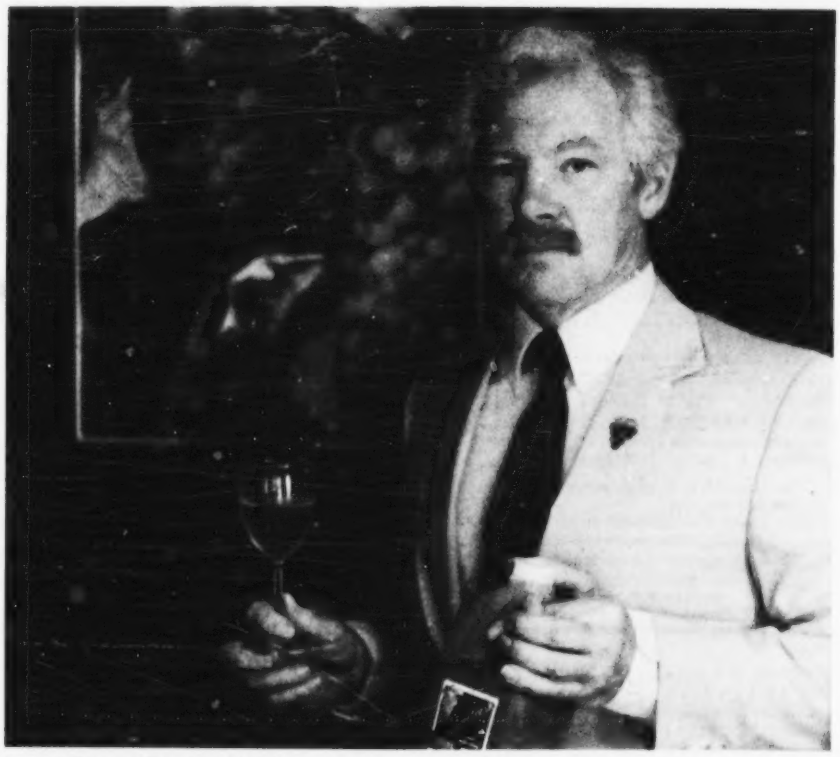
Growers Buck the Odds to Form New York Grape Country Cooperative

A determined group of grape growers from New York's Finger Lakes region has decided to buck substantial odds in trying to carve out a distinct market for their grapes through the medium of a cooperative.

They followed the general path laid out generations before by other producers in other commodities who joined in a cooperative effort to find more reliable and lower cost supplies or better markets. The core of the Nation's agricultural cooperatives were formed in less sophisticated times 50 to 75 years ago.

Much more is known today about cooperatives, how they are formed, operated, and supported by the member-owners, giving cooperators a starting advantage over their forebears. Considerable experienced support structure is in place to guide the young grape grower cooperative legally formed about 2 years ago. But even with all the available expertise, no cooperative succeeds without that crucial ingredient, member support or commitment.

John Martini, who serves in the dual capacity of president of the New York Wine Grape Growers, Inc., and the newcomer, New York Grape Country Cooperative, Inc., retraced its formation. Their co-op was considered a partial answer by growers to the glut of grapes both in State and worldwide markets for the past several years, an alternative to changing wine tastes nationwide, a partial response to markets lost when a major wine producing company in New York changed owners and didn't renew producer



Grape Grower Co-op's Martini promotes new pink juice.

contracts, and an instrument for finding ways to enter existing markets with a new product, a pink grape juice.

To assist the fledgling cooperative, services of a county Extension Service agent, New York Department of Agriculture and Markets, Cornell University's Agricultural Economics Department, Farmers Home Administration, Bank for Cooperatives, USDA's Agricultural Cooperative Service, and U.S. Rep. Stan Lundine have come into play.

Donald Peck, Pulteney, NY, served as the cooperative's first president and provided a lot of leg work in getting it started, securing services from Government agencies such as ACS, and helping the young cooperative develop a sense of marketing direction.

Exploring the Market

Martini explained, "Last summer we met with dairy processors, supermarket chains, and New York Department of Agriculture and Markets. We learned it was difficult to get a juice product on the market in 1985. Cornell advisers indicated wine, jam, and jelly markets were flooded with competitive products. Consultants, who surveyed the market, suggested we develop a single-strength (versus a concentrate) pink grape juice by combining three varieties."

To help the infant cooperative get on its feet, New York State Grape

Patrick Duffey
Editor

Growers Association served as an ad hoc organization committee. Since the cooperative was organized and Martini assumed his dual role, efforts have been concentrated on product promotion and building membership. "We have found a growing awareness of the product among area growers and where the product is marketed it is selling well. We like to think sending growers out on product promotions gives our juice an extra competitive edge and it certainly builds enthusiasm among the growers.

"At the moment our fresh juice product is packaged in plastic half-gallon cartons, but this means it must be placed in supermarket refrigerated cases. So we're looking to use glass bottles, eliminate the need for cooling, and extend the product's shelf life.

"New York Grape Growers Association served as an ad hoc investigation committee. We probed growers. They had no money and no defined product. We began thinking about marketing a semi-sweet pink grape juice, but had no packaging, processing, storage, or equipment. We even looked at commercial vendors, but found little interest.

"We looked at the market potential for a distinct and lighter tasting pink grape juice product, a departure from the traditional heavy purple colored fruit drink. We were facing a surplus of grapes (an estimated 2 million gallons without a market last summer). So we turned to interested growers about forming a cooperative and asked for a $100 membership fee plus a startup tonnage commitment. Seventy-two growers joined and we got a lot of publicity last year.

A Processor Is Found

"Most of the dairy cooperatives we approached for processing capacity were not very enthusiastic. We eventually found a dairy company at Auburn getting out of the business, so it became our grape processor. We put growers in the stores to promote their product and last year sold 80,000 gallons including bulk sales. We're still trying to sell bulk juice and also packaging our carryover from last year.

"Uses for the non-alcoholic beverage in recipes also were introduced. We promoted the slogan, 'Invite the Gang Over With No Hangover,' and began using a 'Vinefresh' label for emphasis. We'll go with less tons from the members next year. As we probed our way along in marketing, we learned our product sold better in the dairy section of some stores but the produce section of others. Imported concentrates in other juices are killing us pricewise. We're trying to create a need in a crowded market without heavy advertising support, an established practice by major beverage companies."

Martini said the bulk of the members are from the Finger Lakes region in central New York. The co-op will make an initial payment to growers this year and hopefully a second after selling some bulk juice. "We're primarily marketing in central New York State and Rochester areas this year. The product is being well received. We further introduced the product to the public at regional and State fairs this summer."

Grape Foundation Helps

In an effort to save the co-op administrative expenses, Martini tries to perform double duty for the State association and the cooperative during his travels. "We got some money from the New York State Grape Foundation under a matching fund arrangement and a declining contribution in successive years. It has helped pay for the office and staff. Our efforts have been concentrated on product promotion and expanding membership. Growers are becoming increasingly aware of the product.

"We've used growers on product promotion and derived double benefit from it. Their presence gives the product more credibility and the growers a greater sense of contributing to their cooperative. Ninety percent of the members are full-time farmers and provide 95 percent of the supply. For 80 percent of our members, grapes are their primary enterprise."

And at a time when economic pressure is forcing many cooperatives to consider merger or consolidation, the co-op grape growers also must face the issue. Seneca Lakes Grape Growers Cooperative formed a little earlier in the region with a smaller membership provides "friendly competition," Martini indicated. "The two cooperatives have some common members. Seneca produces and markets a grape juice concentrate and has sold some to Eastern Milk Producers at Syracuse. At one point we had a meeting of some directors from each co-op to explore common ground. Much of the Seneca group's activities are performed by volunteers from the cooperative. But the hard fact is both products, the concentrate and new pink juice, won't support an administrative base."

Martini said he thinks merger is a necessary step if the new grape juice cooperatives are to survive, because growers can't support both. He has expressed a willingness to step aside if the New York Grape Country Cooperative can find an executive with more marketing experience. ■

Time, Dedication, Commitment Keys To Developing Successful Co-ops

Editor's Note: How to Start a Cooperative (CIR 7), a guide developed by ACS staffers Gene Ingalsbe and James Goff, outlines the process of organizing and financing a cooperative form of business. It is oriented to agriculture, but its content is applicable to many types of cooperative activities. ACS has other publications dealing specifically with how to adapt the cooperative business approach to particular commodities such as fruit and vegetables, crafts, recreation, and forestry.

The job of developing a successful cooperative takes time, work, dedication, member commitment, and money. Each year, staffers from USDA's Agricultural Cooperative Service (ACS) work with producer groups interested in developing a cooperative. Based on that experience, the agency has compiled guidelines for successful operation of cooperatives.

Know the Law—pertaining to cooperatives and all business matters. Know the requirements, limitation, and the actions needed. Selling investment securities, tax consequences of issuing patronage refunds, and handling member equity also must be examined.

Get Expert Help—in meeting the special problems of law, accounting, engineering, and marketing. Experienced cooperative development advisers can save directors and management much time and the cooperative much expense. Directors require guidance in setting cooperative policies while protecting themselves from adverse consequences of avoidable errors. The subject of director liability is as complex as the operation of the cooperative itself.

Separate Policy and Management Functions—to create the best working relationships between the board of directors and management. The board is concerned primarily with setting basic policies and objectives, employing a manager, and reviewing operations to assure conformance with policies and objectives. The manager is responsible for day-to-day management, hiring employees, and planning a program to carry out the policies and objectives set by the board. Directors and the manager should work as a team, but not interfere with the other's functions and responsibilities.

A competent manager must be a good supervisor of employees, develop confidence and loyalty of members, and develop and advise the board on policy alternatives and organization objectives. When new co-ops start marketing like in fruits and/or vegetables, for instance, the manager must understand requirements of the food industry, changes in production patterns in other areas, and be alert to improved methods and industry trends and changes. Managers also need to understand and adapt cooperative principles to the operation.

Richard Seymour
ACS Cooperative
Development Division

Boutwell U.S. Ag Advisor at Ministerial Meeting

National Council of Farmer Cooperative President Wayne A. Boutwell was one of 12 private sector advisors to the U.S. trade delegation at the recent ministerial meeting of General Agreement on Tariffs and Trade (GATT) in Punte del Este, Uruguay. The U.S. trade delegation led by Trade Ambassador Clayton Yeutter, Secretary of Commerce Malcolm Baldrige, and Secretary of Agriculture Richard Lyng was joined by representatives from 92 nations to discuss prospects for a new round of multilateral trade negotiations and accompanying agenda. The U.S., Boutwell noted, sought to place agricultural trade high on the agenda as a priority items. Agricultural imports to the U.S. have exceeded exports for 3 consecutive months amid increasing complaints of unfair trade practices.

NCFC Establishes Communications Network

In response to a growing need for electronic communications and information services among its members and affiliates, National Council of Farmer Cooperatives (NCFC) has established the Cooperative Communications Network (CCN). AgriData Network, a computer-based electronic information and communications service for farmers, agribusiness companies, and others in the agricultural industry, has been selected to support CCN. Subscribers may track cooperative legislation, access a data base providing historical information and statistics on global trade, production, and consumption. They also may create limited access subnetworks dealing with information and communications of interest only to the members of particular organizations like State councils, NCFC committees, and regional cooperatives, and distribute and receive electronic mail to and from members.

Keep Board Flexible—to assure regular changes in directors and a continuing benefit of new ideas and fresh approaches. For flexibility, bylaws should stipulate staggered terms of office for directors to assure some experienced directors remain on the board after each election; nominating at least two people for each board vacancy; not permit existing directors to serve on the committee; permit nominations from the floor; and voting by secret ballot.

Encourage Member Participation—in building a good member relations program. Members must be informed of developments in operations, market outlook, and new developments in production. Membership meetings, both annual and special, help get this information to growers. Also effective are newsletters and on-farm visits to members by management and directors to discuss specific problems and inform members of current developments.

Be Realistic—by asking hard questions and insisting on factual answers. Establish reasonable goals, but avoid overly ambitious projects. Encourage member participation and membership, but never oversell potential benefits or underestimate any risks. Be realistic about economic need for the cooperative and members' support and ability to finance it.

ACS cooperative developers have learned a number of lessons from their organizing experiences. Here are some for producers to consider:

- Form linkages with established cooperatives where possible. Organizing a new cooperative in a community or area already served by an existing one is a costly venture. Ways to work with and through existing cooperatives should thoroughly be explored.

- Producers must express an economic need for a cooperative. Producers often measure their economic need for a cooperative in terms of dollars they are willing to invest in an initial equity subscription for a cooperative.

- Setting equity-level prematurely is dangerous and could lead to an undercapitalized cooperative. Promoters, including producers, often pick a modest initial equity level to help promote interest in a cooperative. Setting an equity amount should follow careful budget planning and feasibility analysis. Equity levels more realistically should be detailed in the feasibility analysis.

- Successful cooperatives usually reflect a cross-section of producers in the community. The new cooperative has a better chance for success if membership represents a cross section of producers in the community or area, rather than limited income, ethnic, or religious groups. Often the volume added by large producers is essential to the cooperative's efficient and competitive operation.

- Cooperatives can't live on grants. A grant is no substitute for a member-equity base in a cooperative's balance sheet. A cooperative simply can't borrow money without an adequate equity base. It can't be independent when it is dependent on grants or soft loans from a sponsor.

- Unsuccessful local businesses may not be successful if continued on a cooperative basis. Converting an existing business to a cooperative doesn't automatically make it successful. A feasibility analysis should be developed by an objective third party to determine the advisability of acquiring any existing business by a proposed new cooperative. In some instances, a study may show there is a chance for economic success. The decision to proceed is then left to the producers.

- High technology, capital-intensive operations are difficult to finance cooperatively. Producers usually don't have the necessary capital to purchase efficient plants for canning, freezing, slaughtering, and other processing operations.

- A detailed business plan is necessary. The plan should include an equity base and loan fund package with proposed operations described in cash flow tables and pro forma financial statements, so producers may quickly consider substantive issues and discuss details with lenders.

- An involved manager and board are vital for a cooperative's success. Cooperatives need capable experienced managers who are fair but tough. Directors should be informed and recognize their responsibility to set policy and guide the manager. In a marketing cooperative, producer-members must be committed to delivering a high-quality product in adequate quantities for successful sales programs.

- Cooperatives need good financial records. Inadequate data limits a manager's ability to properly control and evaluate the business.

- Outside technical advisers are essential but can't operate the cooperative and should have no control over a board and manager. Advisers can conduct a feasibility study and recommend a business plan, but can't make the board and manager carry it out. ■

Top 100 Cooperatives Cut Refunds 20 Percent in 1985

Editor's Note: This is the third article in the sixth annual financial profile of the 100 largest U.S. agricultural cooperatives. It focuses on distributing net margins, handling patronage refunds, per-unit capital retains, and sources of borrowed funds. Earlier articles in September and October covered changes in 1985 revenues, margins and losses, and the combined balance sheet. The final article in December will analyze the combined statement of changes in financial position.

American agriculture continued to struggle with overcapacity and low commodity prices in 1985. Strong foreign competition weakened export demand and imports threatened domestic markets of many U.S. products. The sudden change from an expansion-oriented farm economy to one of retrenchment has caused severe financial stress within rural communities and among farmers and their marketing and supply cooperatives.

Cooperatives reacted to the overall agricultural decline by restructuring operations, disposing of nonperforming assets, and reducing debt. Both sales and net margins were down substantially in 1985. Evidence of tightened management is reflected in the reduction of assets and use of borrowed funds. Such repositioning of activities has been most noticeable among Midwest grain marketing and farm supply cooperatives.

Cooperatives have cut costs and expenses, reduced personnel, sold facilities, merged operations, and entered into joint ventures with other cooperatives and noncooperatives.

Donald R. Davidson
Jeffrey S. Royer
ACS Agricultural Economists

Annual and audit reports for the identical 100 cooperatives in 1984 and 1985 showed these changes:

- total patronage refunds down 20.2 percent to $270.8 million, with farm supply and diversified groups causing most of decline, although fruits and vegetables and dairy groups increased;
- cash portion up from 47.6 to 53.4 percent of total refunds;
- retained qualified allocations down from 43.5 to 38.4 percent and retained nonqualified allocations down slightly from 8.9 to 8.2 percent;
- patronage refunds down from 68.6 to 64.2 percent of net margins;
- unallocated equity up from 18.5 to 21.7 percent of net margins;
- per-unit capital retains up nearly 6 percent to $164.5 million;
- pooling cooperatives' share of total retains down from 69.5 to 68.1 percent;
- Banks for Cooperatives' (BCs) share of total borrowed capital of $5.9 billion down from 54.7 to 48.2 percent;
- capitalized leases and industrial development (revenue) bonds up from 12.2 to 13.7 percent of total debt; and
- commercial banks' share up from 5.3 to 6.8 percent and other sources (insurance companies, Commodity Credit Corporation, commercial paper, etc.) up from 11.5 to 15.4 percent.

Patronage Refunds Down

Total patronage refunds (cash and retained allocations) dropped 20.2 percent from $339.4 million in 1984

to $270.8 million in 1985, their lowest level in 5 years (fig. 1). Patronage refunds accounted for 64.2 percent of total net margins, compared with 68.6 percent in 1984.

Most patronage refunds the Top 100 cooperatives issue are qualified. The refunds are in the form of cash and noncash allocations (fig. 2). In 1985, 91.8 percent fell in this category compared with 91.1 percent in 1984.

Although cooperatives deduct qualified patronage refunds from taxable income, member-patrons include them. The tax code requires at least 20 percent be paid in cash. In 1985, the Top 100 paid 58 and 42 percent of their qualified refunds ($249 million) in cash and noncash allocations respectively. This compares with a 1984 cash-noncash split of 52-48.

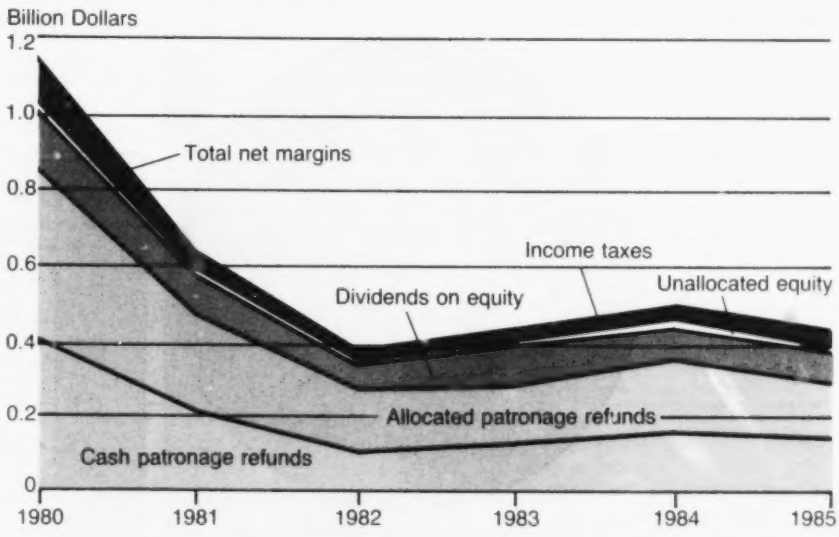
Nonqualified patronage refunds are noncash allocations a cooperative includes in its taxable income. They aren't taxable to patrons until redeemed in cash. Ten associations retained $22.1 million of nonqualified allocations or 8.2 percent of total patronage refunds (fig. 2). In 1984, the 10 co-ops using nonqualified allocations of $30.3 million represented 8.9 percent of total refunds. While total patronage refunds decreased 20.2 percent in 1985, nonqualified allocations dropped 27.1 percent.

Handling Smaller Margins

Although net margins of the Top 100 have been far below their 1980 level during the past 5 years (fig. 1), patronage refunds have remained the major method used to distribute them.

In 1985, 79 of the Top 100 cooperatives reported net margins totaling $421.6 million (table 1). This was almost 15 percent below the amount

Fig. 1—Top 100 Distribution of Net Margins[1]



[1]Before deducting net losses.

Table 1—How Top 100 commodity groups handled 1985 net margins[1]

Commodity groups	Co-ops with margins	Total net margins	Percent share			
			Patronage refunds	Unallocated equity	Income taxes	Dividends
	Number	*Mil. dol.*	*Percent*			
Dairy	31	134.3	76.1	18.1	5.5	0.3
Farm supply	9	76.1	82.0	9.7	7.0	1.3
Diversified[2]	6	63.9	26.6	30.5	32.7	10.2
Fruits and vegetables	9	54.8	56.3	31.4	11.8	0.5
Cotton	4	38.6	100.9	(4.3)	3.3	0.1
Grain	9	22.4	67.1	27.8	5.1	0
Rice	4	19.4	0	58.3	23.3	18.4
Sugar	4	5.6	27.4	73.5	(0.9)	0
Other products[3]	3	6.5	42.8	44.6	12.2	0.4
Total	[4]79	421.6	64.2	21.7	11.3	2.8

[1]Before deducting net losses.
[2]Marketing/farm supply cooperatives handling several commodities.
[3]One nut, one poultry, and one livestock marketing association.
[4]Seventeen of 21 other cooperatives incurred net losses and 4 used pool accounting methods with no net margin (or loss) activities reported (see table 2, page 6, September 1986 Farmer Cooperatives).

Fig. 2—Type of Refunds, 1985

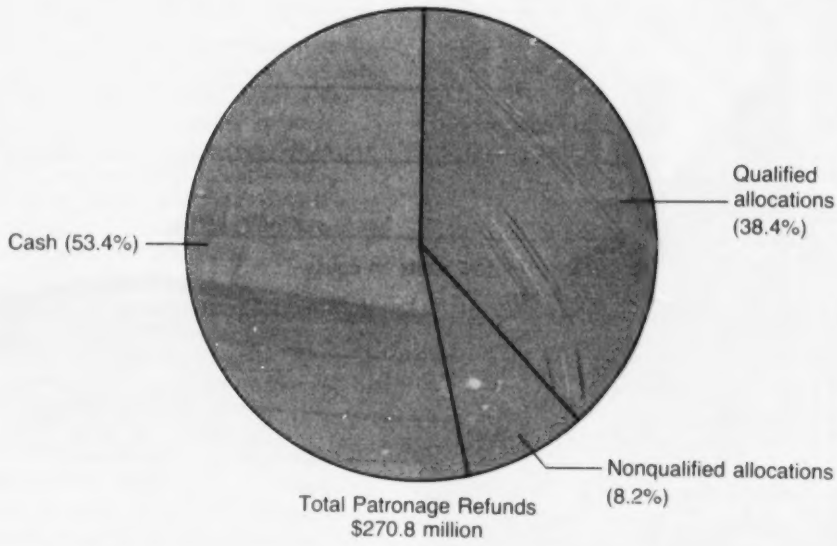
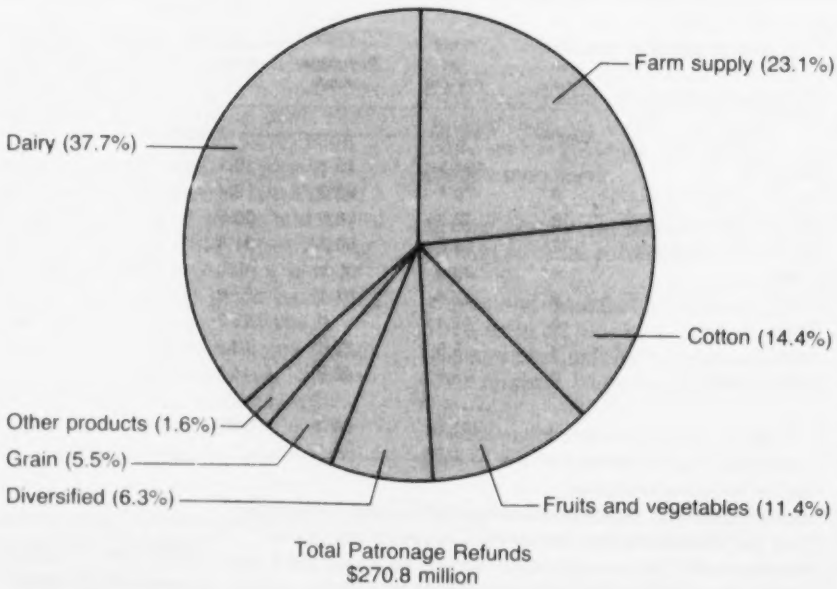


Fig. 3—Patronage Refunds by Commodity Group, 1985



shown by 79 cooperatives in 1984.

Unallocated equity accounted for 21.7 percent of total net margins compared with 18.5 percent in 1984 and 26.5 percent in 1983 (table 1). This was the highest proportion of margins handled this way by the largest cooperatives in any year on record. Higher proportions of unallocated equity resulted from management efforts to rebuild this type of capital after its depletion by heavy losses during the past 5 years.

Top 100 commodity groups vary greatly in the way they handle net margins. Farm supply, dairy, cotton, and grain groups (whose combined margins accounted for 64 percent of the total) distributed 67 to 100 percent of their 1985 margins as patronage refunds (table 1). On the other hand, commodity marketing groups operating mainly on a pooling basis—fruits and vegetables, rice, and sugar—use patronage refunds limitedly if at all.

Two Groups Cause Decline

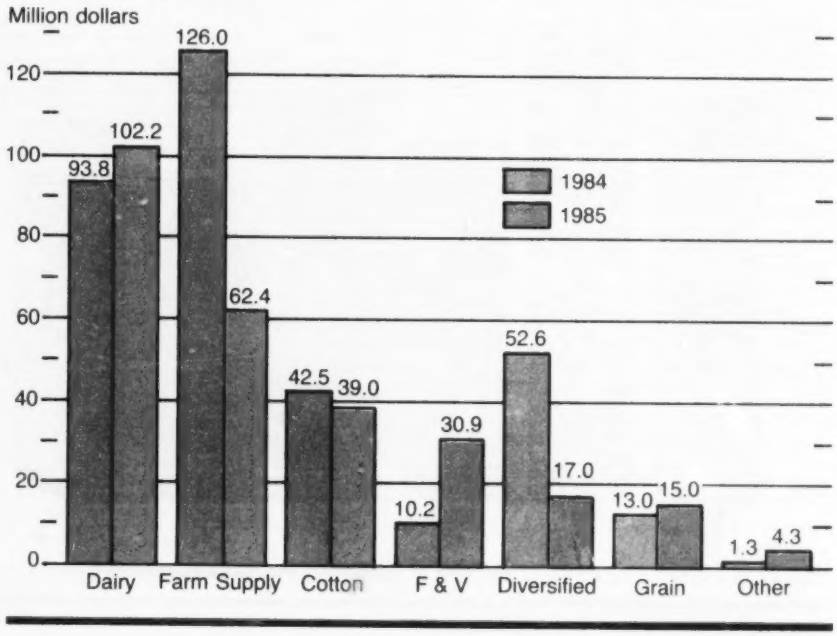
The $102.2 million of patronage refunds for the 32 co-ops in the dairy group accounted for nearly 38 percent of total refunds by the 100 largest co-ops (fig.3). The dairy group's refunds totaled 9 percent more than those paid in 1984 (fig. 4). However, the $3.5 million average refund paid by 29 of the 32 co-ops was slightly below the $3.6 million paid by 26 in 1984.

The fruits and vegetables and other products groups more than tripled their 1985 patronage refund payments. Four of 14 in the fruit and vegetable group paid refunds averaging $7.7 million versus $3.4 million paid by three cooperatives in 1984. The group accounted for 11.4 percent of total refunds compared with 3 percent in 1984 (fig. 3).

The 15 co-ops in the grain group increased total refunds 15.4 percent (fig. 4). Seven in the group made average payments of $2.1 million versus $2.6 million made by five co-ops in 1984. The grain group's share of total refunds increased from 3.8 to 5.5 percent (fig. 3).

Large decreases in total refunds by the farm supply ($63.6 million) and diversified ($35.6 million) groups caused total refunds of the Top 100 to fall 20.2 percent or $68.6 million (fig. 4).

Fig. 4—Changes in Commodity Group Refunds, 1984 vs. 1985



Capital Retains Up

Per-unit capital retains were up nearly 6 percent to $164.5 million after dropping in 1984 to their lowest level since 1980 (fig. 5). Twenty-five of the 27 marketing cooperatives operating on a pooling basis accounted for 68 percent of the capital retains of the 100 largest cooperatives. These same cooperatives accounted for 70 percent of per-unit capital retains in 1984.

Pooling cooperatives accounted for 26 and 16 percent, respectively, of the total net margins reported by 79 cooperatives in 1985 and 1984 (table 1).

Twenty-one marketing cooperatives operating on a net margins basis accounted for 32 percent of the capital retains, compared with 19 associations and 30 percent in 1984 (table 2). Most were dairy cooperatives.

The number of cooperatives deducting capital retains has varied from 38 to 46 during the past 6 years (fig. 5). Average total retains of cooperatives declined 21 percent from $4.47 million in 1980 to $3.53 million in 1984. Average total retains reached $3.58 million in 1985, up 1.4 percent.

Table 2—Top 100 capital retains by type of operation, 1984 vs. 1985[1]

Operation	Co-ops deducting per-unit capital retains[2]					
	1984	1985	1984		1985	
	Number		*Mil. dol.*	*Percent*	*Mil. dol.*	*Percent*
Pooling basis:						
Fruits and vegetables	12	12	62.7	40.4	63.7	38.7
Rice	5	5	18.0	11.6	18.3	11.1
Sugar	3	3	9.1	5.9	8.6	5.3
Other cooperatives[3]	5	5	18.0	11.6	21.4	13.0
Subtotal	25	25	107.8	69.4	112.0	68.1
Net margins basis:						
Dairy[4]	19	21	47.5	30.6	52.5	31.9
TOTAL	44	46	155.3	100.0	164.5	100.0

[1]Identical cooperatives used in 1984 and 1985.
[2]Deductions for capital purposes fixed without reference to net margins.
[3]Two cotton, two dairy, and one nut marketing association.
[4]Two cooperatives each year not dairy associations.

Figure 5—Top 100 Capital Retains

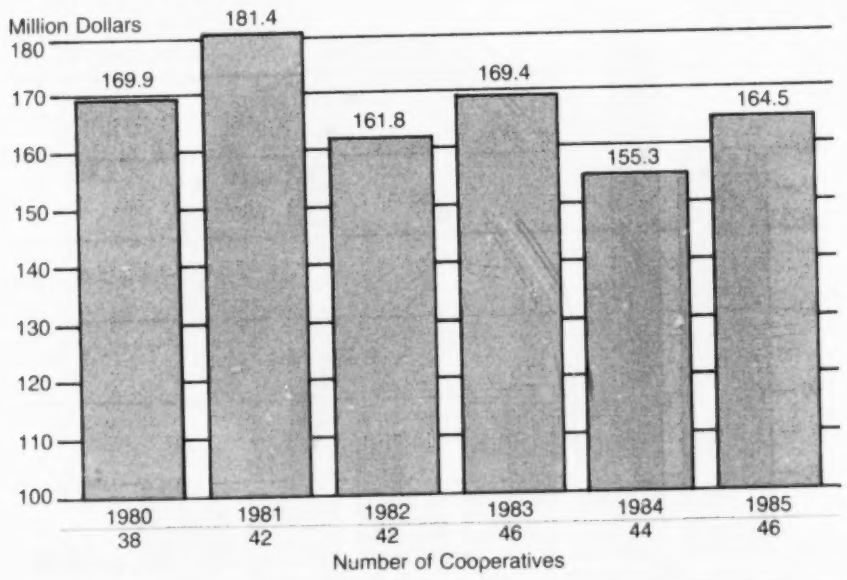


Table 3—Changes in Top 100 debt, 1984 vs. 1985

Source	Total debt[1]		Increase (decrease)	
	1984	1985	Amount	Percent
	----Million dollars----			Percent
Banks for cooperatives	3,462	2,834	(628)	(18.1)
Bonds, notes, and certificates issued by cooperatives	1,035	934	(101)	(9.7)
Industrial development (revenue) bonds	400	408	8	2.0
Capital leases	377	401	24	6.4
Commercial banks	339	397	58	17.1
Insurance companies	309	317	8	2.6
Other nonfinancial entities (co-ops and nonco-ops)	185	211	26	14.1
Commodity Credit Corporation and other government sources	48	151	103	214.6
Commercial paper	67	127	60	89.6
Other sources	112	99	(13)	(11.6)
Total	6,334	5,879	(455)	(7.2)

[1]Includes short- and long-term borrowed capital but excludes other current and noncurrent liabilities (see table 1, page , October 1986 Farmer Cooperatives).

BCs Share Drops Sharply

Although the BCs continued as the primary source of borrowed funds for the Top 100, their share of total debt dropped to the lowest level of any year ACS has recorded such information (fig. 6). The highest recorded level was 62 percent in 1970.

Total debt capital outstanding on the combined balance sheet of the 100 largest co-ops decreased $455 million (7.2 percent) to less than $5.9 billion. But the amount borrowed from BCs dropped 18.1 percent to $628 million. Most (74 percent) of the decrease was in short-term credit.

Fifty associations reported $916 million as notes payable to BCs compared with 54 co-ops reporting $1.4 billion in 1984 (table 4). Short-term money owed BCs averaged $18.3 million versus $25.6 million in 1984. The BCs supplied 40 percent of the total short-term debt of $2.3 billion versus 55 percent of $2.5 billion in 1984.

Seventy-nine of the Top 100 reported $1.9 billion long-term debt from BCs compared with 80 co-ops showing $2.1 billion in 1984. Average long-term debt from the BCs dropped from $26 million to $24 million. The Top 100 held long-term debt of $3.6 billion (table 4), 53.5 percent from BCs compared with 54.5 percent of $3.8 billion in 1984.

Other Debt Mostly Up

Borrowed capital from other sources totaled 51.8 percent of total debt versus 45.3 percent in 1984 (fig. 6). Bonds, notes, and certificates (debt certificates) issued by cooperatives dropped about 10 percent and a catch-all category "other sources" dropped nearly 12 percent.

Figure 6—Top 100 Sources of Debt

Figures in bars are percent of total debt.

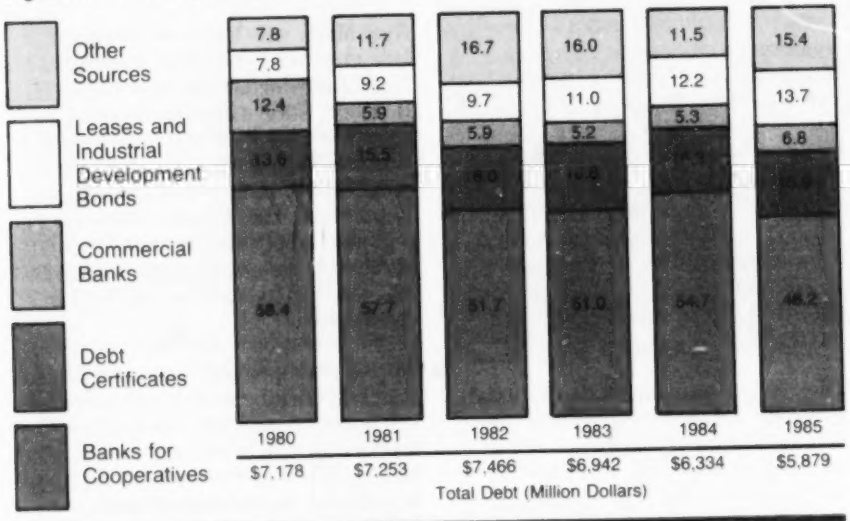


Table 4—1985 sources of borrowed capital

Source	Co-ops using each source		Debt outstanding from each source			Percent of total
	Short-term	Long-term	Short-term	Long-term	Total	
	Number		*Million dollars*			*Percent*
Banks for cooperatives	50	79	1,916	1,918	2,834	48.2
Bonds, notes, and certificates issued by cooperatives	18	35	214	720	934	15.9
Industrial development (revenue) bonds	--	47	--	408	408	6.9
Capitalized leases	--	36	--	401	401	6.8
Commercial banks	15	17	162	236	398	6.8
Insurance companies	--	16	--	317	317	5.4
Other nonfinancial entities (co-ops and nonco-ops)	7	27	78	133	211	3.6
Commodity Credit Corporation and other government sources	6	3	147	3	150	2.5
Commercial paper	4	--	127	--	127	2.2
Other sources	5	50	9	90	99	1.7
Current portion of long-term debt	93	--	642	(642)	--	--
Total			2,295	3,584	5,879	100.0

Short-term debt certificates issued by 18 cooperatives increased $22 million to $214 million (table 4). The $101 million decrease in total debt certificates (table 3) was caused by a $122 million decline in long-term debt certificates. Thirty-five associations (versus 40 in 1984) reported $720 million of term-debt outstanding from this source.

Industrial development (ID) bonds issued by city or county governments and capitalized leases continued to increase their total debt share from 12.2 percent in 1984 to 13.7 percent in 1985 (fig. 6). Table 4 shows the debt share of each of these term sources of borrowed funds. Thirty-six co-ops showed capitalized leases both years, but the number reporting ID bonds increased from 43 to 47.

Commercial banks raised their share of total debt from 5.3 to 6.8 percent. The $58 million increase in 1985 (table 3) came from long-term debt because short-term loans fell $20 million. Likewise, long-term debt from insurance companies rose $8 million (used by 16 co-ops versus 14 in 1984).

Loans from Commodity Credit Corporation (CCC) more than tripled to $103 million in 1985. CCC's share of total debt rose from 0.8 percent in 1984 to 2.5 percent in 1985. Most of the increase represented short-term debt used mainly by sugar and cotton cooperatives to finance larger inventories in connection with price support programs.

Commercial paper use was up about 90 percent to $127 million (table 3), but only four cooperatives reported using this short-term credit the past 2 years. Its share of total debt rose to 2.2 percent (table 4) from 1.1 percent in 1984. ■

Pursuit of New Markets, Owner Base More Important Than Co-op Competition

The shrinking farm population, coupled with growing national and international markets, demand cooperative competition take a back seat to increasing cooperative market share and maintaining an adequate member-owner base.

Two senior level managers—one representing supply inputs and the other dairy interests—hammered home this message during a session at the recent National Institute on Cooperative Education (NICE) at Knoxville, TN.

Larry Johnson, speaking at a breakout session on cooperative consolidation and join ventures, was blunt. Cooperatives have "only two alternatives: consolidation or bankruptcy. Consolidation will reduce needless competition, provide more efficiency through centralized management of larger operational units, and spread risk," he said.

The petroleum division executive for CENEX, St. Paul, MN, emphasized, "We must know our real competition, and it is not other local or regional cooperatives. Competing among ourselves will allow...(others) to take over a market we once called yours and mine."

Paul Johnston, president of Agri-Mark, Inc., Lawrence, MA, echoed Johnson's comments. "Any time cooperatives compete, one farmer against another, it is bad." Both cooperatives have experimented with maverick arrangements to solve marketing needs.

Before undertaking any structural changes, Johnston said, a cooperative must remember its primary purpose to serve member-owners and therefore take necessary steps to ensure member control.

The CENEX Challenge

Johnson said market pressures forced CENEX to re-examine its petroleum operations. Local cooperatives in population centers were liquidating and suffering from financial stress and the move toward diesel-driven agriculture.

CENEX was challenged to increase total gasoline sales and needed new markets. To find them, CENEX embarked on three routes: develop a relationship with a convenience store chain, purchase existing retail outlets, and sell gasoline through jobbers.

The cooperative subsequently established an arrangement with a convenience store chain, both franchising and joint ventures. In the joint ventures, the cooperative provides the petroleum equipment while store owners operate the facility. Retail pumps bear the CENEX fuel name.

Two franchise agreements with local cooperatives are projected for 1986, a joint venture between a local cooperative and convenience store, and seven projected CENEX-convenience store joint ventures.

Retail outlets also are being purchased—a portion of a North Dakota convenience store chain, four Maverick truck stop convenience stores, and 16 family owned stores in Montana. As a third step the co-op is using jobbers. In the first 9 months of fiscal 1986, CENEX sold 51 million gallons through this outlet.

Seven supply cooperatives in Montana have begun a joint venture in warehousing rear tractor, pick-up truck, and passenger tires as well as delivering propane, repairing furnaces, and distributing fertilizer, Johnson said.

Agri-Mark/Hood

Agri-Mark was born out of turbulent marketing conditions in the Northeast during the late 1970s. H. B. Hood, Inc., a family-owned dairy processor, went on the sale block. Yankee Milk, a New England dairy cooperative, lacked adequate capital to purchase those assets. Agway, a regional supply cooperative with 60 percent of its membership in dairying, wanted to stabilize marketing conditions.

Agri-Mark's primary missions are to maintain membership base and market member products for a maximum return. It owns the facilities and leases them back to Hood. Hood is a wholly owned Agway subsidiary.

Johnston said this arrangement guarantees a market for dairy farmer milk while allowing those farmers to share in value-added profits. It also allows board and management to devote themselves to representing farmers and not be distracted by consumer marketing issues.

Since then, Agri-Mark has begun marketing Dairylea Cooperative milk in New England and Hood is making Dairylea ice cream. ■

Poor Communication At Heart of Farm, Cooperative Disharmony

Although he's no psychologist or trained counselor, Dr. Ron Hanson, University of Nebraska agricul-

The former World's Fair park at Knoxville, TN, was the site for "Tennessee Night" festivities planned by the Tennessee Council of Cooperatives for participants at the National Institute on Cooperative Education.

tural economist and farm management specialist, has talked with a lot of farm families and farm audiences in recent years.

"I've been there before," he says of his principal qualifications for helping families in which friction and strife threaten to rip apart what once may have been close bonds. "The tears, bitterness, heartache, jealousies—I know what it's like," he says quietly, adding that he draws from experiences gained while being raised on a family farm in Illinois.

From the experience, Hanson has developed a strong desire and commitment to offer his services to families without charge. "Besides, if I got paid, I wouldn't have the freedom to say or do some of the things I do," he explains.

Hanson spoke at NICE at the University of Tennessee-Knoxville. His advice to farm families, aimed at improving communications, has application to cooperatives. "A family farm (or cooperative operation) has to be a team effort," Hanson says. "Everyone has to feel they're making a contribution and are important in some way."

All too often, family farm members let personal situations interfere with business decisions, Hanson says. To help guard against that, he recommends monthly business meetings of family members. Such meetings should have a prepared agenda distributed in advance. Participants should stick to agenda. Meetings should be conducted "on neutral turf," not at someone's kitchen table.

Hanson says communication problems and the number one cause of difficulties between family farm members. "Lots of people think their communications are good. But how many families can sit down and talk objectively about a sensitive or tough subject without getting into criticisms, accusations, and the like?" he asks.

"Good communication is based on mutual respect, even if you don't like the person or what's being said, and a willingness to listen, really listen." No family farm will always be "a bed of roses," Hanson says. But those who practice effective communications will be able to overcome problems.

Hanson has assembled an array of checklists from his work with farm families experiencing troubles in personal relationships. Problems in family farm (cooperative) relationships often center around these areas:

- gossiping about other family members ("It almost always gets back, usually in a more exaggerated form.");
- carrying a "grudge" too long;
- letting arguments go beyond the boiling point without a cooling-off period ("Arguments can be productive if they're fair and constructive.");
- failing to set family goals and priorities;
- being unable to have open, honest discussions; and
- lacking commitment to trying to work things out.

Good communication involves good listening, whether operating a farm or a cooperative, Hanson says. So good listeners should avoid judgmental comments until they make sure they understand what the other person has said. Don't try to change what the other person has said. Don't let attention drift from what the other person is saying. Don't interrupt or change the subject. Don't close your mind to the other person's views. Don't try to finish the other person's comments. Don't permit wishful listening—only what you want to hear. Don't rehearse your response. Don't put the other person off. Don't rush the other person. ■

AMPI, MGF Merge; Study Underway Exploring Dairy Co-op Realignment

A significant major restructuring is in the offing among the Nation's dairy cooperatives following the merger approval by members and delegates of Associated Milk Producers Inc. (AMPI), San Antonio, TX, and Morning Glory Farms, Inc. (MGF), Shawano, WI.; AMPI's purchase of Falls Dairy Company at Jim Falls, WI., the largest independent cheeese manufacturer in the Nation; and a pending study exploring some form of consolidation of AMPI, Mid-America Dairymen, Inc., Springfield, MO, and Western Dairymen Cooperative, Inc. of Denver.

The plan of merger between MGF, a Northeast Wisconsin dairy cooperative, and the Mid-States region of AMPI, was approved in separate meetings of each cooperative this fall. More than two-thirds of the voting MGF members (52 percent of membership voted) approved the plan (newly ammended State co-op law only required 51 percent approval) and delegates in the three AMPI regions concurred by a 98 percent margin. The plan became effective Oct. 1.

Headquarters for AMPI's 8-State region will move from the Chicago area to Shawano and James Kasten, former MGF president and general manager, will manage the enlarged operation, now dubbed Morning Glory Farms region. MGF has 2,200 members in a 28-county area of Wisconsin. During 1985, it marketed 1.3 billion pounds of milk and produced sales of nearly $217 million. It operates six manufacturing plants in the State.

Patrick Duffey
Editor

Consolidation Savings

MGF Chairman John Malcheski, Pulaski dairymen, said the move is expected to produce consolidated savings and improved earnings exceeding $3.5 million per year from improved milk procurement, plant operations, and other efficiencies such as eliminating duplicate management and support activities and being able to allocate milk supplies to each cooperative's manufacturing plants.

The Mid-States region reported a 10 percent membership decline last year. Operating loss was $2.1 million, but the board wrote off more than $2 million in newly formed capital retains against operating losses. Mid-States equity was $2 million on Dec. 31, 1985. To bring it in line with MGF, Mid-States' members are being assessed a 1 percent capital retains deduction through March 1988. MGF returned 1967 allocated equities this fall, bringing it in line with Mid-States 10-year mark.

New Region Officers

The new region will serve 12,000 family dairy farmers. Gregory Blaska, AMPI's Mid-States region president from Marshall, WI, will become president of the merged board of directors. Malcheski will be first vice chairman and head the board's operating committee composed of directors who ship to plants owned by the cooperatives.

The merger brings together a 55-year-old name brand, Morning Glory, to complement AMPI's low-fat cheese line and New Holstein Muenster cheese. Don Juers, MGF's finance vice president, said the two organizations came into the merger with different equity levels ($15 million for MGF members). In response to the difference, he said, no capital retain will be collected from or charged to current MGF members through the 1988 annual meeting.

"MGF members will receive 10 cents per hundredweight for milk

College Replaces Harling at Omaha FC Banks

Eugene B. College has been selected as interim president of the Omaha Farm Credit Banks by its board of directors to replace John A. Harling who resigned in late September. Harling had been president and chief executive officer since 1984 when the three banks combined management. College had been serving as the banks' senior vice president of finance and information since 1985. College earlier had been senior vice president of credit for the Omaha Bank for Cooperatives and Omaha Federal Intermediate Credit Banks. The district board has begun the search for a permanent successor to Harling.

In his final statement, Harling observed, "Over the past several months, using input from employees and directors across the district, I have aggressively addressed the priorities this district must face. I feel with the direction established, I can in good conscience step aside." His 23-month tenure was marked by the worst financial losses in the banks' history. Harling earlier announced a bank reorganization plan to cut 50 employees from the Omaha staff (to 330), put a wage freeze into effect in 1987, and focus on making and servicing loans. At the same time, Dean Raber, longtime bank official, announced plans to retire.

delivered to the new cooperative from July 1 through Dec. 31, 1986, and during calendar years 1987 and 1988 unless they retire or terminate dairying." Juers said it would provide a greater equity balance between MGF members and those of the Mid-States region. (This amounts to a payout of Morning Glory Farms accumulated tax-paid surplus and an inducement for current members to stay with the organization.)

Falls Dairy Cheese

Falls Dairy was acquired by AMPI's North Central region. The Chippewa County dairy has 1,800 patrons. Ervin Purdue, its manager since 1970, continues in the post. The dairy receives up to 3 million pounds of milk daily. It has a drying operation at Jim Falls plus several area receiving stations. Most of the cheese produced is sold to Kraft Foods.

AMPI, already the Nation's largest dairy farmer cooperative, now accounts for more than 12 percent of the U.S. milk supply. (It could grow to 15 percent if a proposed merger plan study is put into effect.) It was formed in 1969 and now has more than 30,000 members in 20 States throughout the Midwest, South, and Southwest.

Consolidation Study

In a related development, the boards of directors of AMPI, Mid-America Dairymen, and Western Dairymen Cooperative, Inc., have entered the second phase of a study exploring the merits of an organizational consolidation. An initial technical service report was presented this fall by Agricultural Cooperative Service to the combined boards. The study was conducted at the request of the cooperatives.

(Mountain Empire Dairymen's Association (MEDA) recently entered into a marketing agreement with Intermountain Milk Producers Association under the banner of Western Dairymen Cooperative, Inc. The initial ACS study only concerned Mountain Empire, but since then Intermountain as part of Western has been included in subsequent meetings and studies. Representatives of both Mountain Empire and Intermountain attended the September meeting in St. Louis with other participants in the consolidation study.)

The initial study addressed internal efficiencies available through a consolidation. The report suggested consolidated savings of $14.8 million annually or about 6.2 cents per hundredweight. The ACS report looked at milk assemply and shipment, improved use of facilities, reduced sales expenses and inventory management costs, improved delivery costs, and reduced administrative costs.

The cooperatives requested ACS to expand its study and examine structure and financial arrangements. A joint committee of the boards of the three cooperatives met in Minneapolis in early October to further examine those aspects. The combined committee will present recommendations back to the full boards of the three dairy cooperatives. ■

Norbest Fined in Meat Adulteration Case

U.S. District Judge David K. Winter in Salt Lake City, UT, on Sept. 11 fined Norbest, Inc., $250,000 and ordered the cooperative to pay restitution of $621,000 to the U.S. Department of Agriculture as the result of criminal felony violations committed by Norbest at its turkey processing plant in Salina, UT, from Sept. 4 through Dec. 3, 1985. It was the largest fine assessed in U.S. poultry industry history. Violations included the theft of turkey meat from the USDA school lunch program and the adulteration of processed turkey products furnished to the school lunch program in several States, including Nevada, Iowa, Washington, and California.

For some years, Norbest had used its Salina plant for processing whole turkeys. In September 1985, Norbest initiated a new further processing operation in a portion of the plant. Violations were limited to that operation and didn't include Norbest's processing of whole turkeys at any of its plants.

Several types of violations were committed by Norbest employees under instructions from the further processing supervisor at the Salina plant. He subsequently pleaded guilty to felony violations and was imprisoned. Two other employees were convicted of misdemeanor violations. Evidence indicated Norbest's corporate officers knew nothing about alteration practices at the plant.

After FBI and USDA special agents surfaced the evidence, Norbest on its own volition shut down the Salina plant for 6 months. The whole-bird processing operation was reopened in June.

Contributing Cooperators Honored At 1986 Co-op Month Kickoff

Annual awards were presented to outstanding cooperative leaders in a variety of disciplines during the Oct. 1 kickoff breakfast in Washington, DC, marking the opening of Cooperative Month observances throughout the Nation. Here is a brief profile of the winners in seven categories. The award winner for the best State Co-op Month program will be chosen and announced later.

Cooperative Statesmanship—George Steele, retired chairman of the board of Agway, Inc., Syracuse, NY, who began his cooperative career in 1951 as a director of the Pennsylvania Farm Bureau Cooperative Association and stretched it into 38 years of service as a cooperative director. During his 15 years as chairman, Agway grew to become one of the *Fortune* 500 cooperatives. He served on the board of the Baltimore Farm Credit District representing Bank for Cooperatives members, supported cooperative education as a trustee of the American Institute of Cooperation for 15 years; and helped develop a cooperative director training school in Pennsylvania.

Cooperative Education—Johnny Feagan, economist-organizations, Texas Agricultural Extension Service, College Station, TX, began his career in local cooperatives management in Texas and later joined the Extension Service with responsibilities in cooperative marketing and management, oilseed marketing, and youth work in cooperatives. For the past 20 years he has been a resource director for the Texas Agricultural Cooperative Council and a key leader in its manager-director, young couple, and youth conferences. Recently the Farm Credit Banks of Texas honored him with its "1986 Texas Academy of Honor in Agricultural Credit Award."

Cooperative Communication—Gene Clifford, manager of cooperative education, for National Rural Electric Cooperative Association (NRECA), Washington, DC, began his 27-year association with cooperatives at Wisconsin Electric Cooperative. He later became director of information and education for the Cooperative League of the USA (now the National Cooperative Business Association), developed the Cooperative Hall of Fame and served as its coordinator until joining NRECA. He has developed cooperative materials and programs for rural electric cooperative members and the general public. His publications have received numerous awards from the Cooperative Communicators Association. He also has served as the national coordinator of Cooperative Month activities several times, most recently in 1985.

Public Service—Susan Hobart, executive director, Madison Mututal Housing Association and Cooperative, (MMHA), Madison, WI, was one of the founders and now executive director of the private, nonprofit organization that renovates and runs cooperative housing for low and moderate income people. MMHA has developed more than 80 units of scattered site cooperative housing in Madison and is planning another 50 units. Also planned is Chandler Home, designed for frail elderly residents. She was a founding member of the national Training for Trainers cooperative. It provides training and support for cooperative educators and trainers.

International Cooperative Development—U.S. Rep. Benjamin Gilman (NY), second ranking Republican on the House Foreign Affairs Committee, has been a leading Congressional spokesman promoting cooperative development legislation and efforts to end world hunger. He authored legislation establishing the Presidential Commission on World Hunger, Select Committee on Hunger, and World Food Day. He later was appointed to the commission and serves on the committee. He also authored an amendment to the foreign assistance act sponsored by the U.S. Overseas Cooperative Development Committee. It provides for a major study on increasing development assistance through private channels including cooperatives. He is a recipient of the President's certificate of outstanding achievement for his work in aleviating world hunger.

International Cooperative Development—Barbara Deverick, administrative manager for Blue Ridge Electric Membership Corporation, Lenoir, NC, has been involved in exporting rural electrification pattern for more than 20 years. She has also worked as an NRECA team member in the Philippines, Indonesia, and Jamaica assisting government agencies in rural electrification projects. Deverick has chaired U.S. Overseas Cooperative Development Committee and is immediate past chairman of the National Cooperative Business Association. She is a member of the Central Committee of the International Cooperative Alliance, a director of Agricultural Cooperative Development International, and past chairman of the Rural Electric Women's Task Force.

Cooperative Career—Paul Mullinix, retired group vice president-operations services for Southern States Cooperative (SSC), Richmond, VA, devoted more than 45 years to helping farmers in the five-state region who own SSC. "Mr. Southern States" began his career as a trainee in a local store in Bel Air, MD. He was a key figure in the development of a regional farm

supply distribution system unique among American cooperatives. Since retirement, Mullinix has been a volunteer advisor for Volunteers in Overseas Cooperative Assistance, an organization he helped form 30 years ago. In 1983 he and his wife spent three months in Brazil helping coffee farmers victimized by a freeze. Earlier this year they spent 4 months in Africa, mostly in Somalia, helping farmers set up cooperatives.

Cooperative Theme—Bonnie Watson, president of High Park Gardens Cooperative Corporation, Newark, NJ, has developed one of the Nation's first urban middle-income cooperatives. The cooperative provides homes for its 462 stockholders and their families. Last year, on its 20th anniversary, the City of Newark cited the co-op for maintaining "fiscal solvency and financial stability throughout the years despite inflated energy and building maintenance costs." It called High Park "a model housing cooperative for communities across the Nation to emulate." The cooperative developed an active 11-committee structure, administered a $400,000 capital improvement program, and obtained a $23,000 energy grant from the New Jersey Department of Energy. ■

Study Future for Grain Marketing Cooperatives

A symposium on the future of grain marketing cooperatives will be conducted in Hutchinson, KS, on Feb. 11, 1987. The symposium will be offered by the Arthur Capper Cooperative Center at Kansas State University in cooperation with the Kansas Cooperative Council.

Omaha FLB Offers New Loan Pricing Program

Federal Land Bank of Omaha (FLB) has initiated an individual loan pricing program for qualifying Federal Land Bank Association (FLBA) borrowers in Iowa, Nebraska, South Dakota, and Wyoming. The new program established a four-tiered interest rate structure based upon an analysis of risk factors. Lower interest rates are applied to loans with little risk and higher rates to riskier loans.

Some borrowers will receive interest rates as low as 10.5 percent under the new program. The district's Production Credit Association (PCA) started a similar interest rate program in July. The new FLB loan pricing program has been approved by Farm Credit Administration which regulates Farm Credit System institutions.

"Not all Land Bank borrowers will qualify for an immediate interest rate reduction," cautioned John A. Harling, district banks' president and chief executive officer. "The current average cost of our leading funds and the stress in our loan portfolio precludes an across-the-board interest rate reduction."

To participate in the individual loan pricing program, an FLB borrower must complete and return a special application and agreement, and provide information about the farm operation. Necessary forms and instructions have been mailed to FLBA borrowers with variable rate loans.

After analysis of the applications and related materials, borrowers will be individually notified of their interest rate classification and individual loan pricing program interest rate. Rate adjustments followed on existing variable rate Land Bank loans. New loans qualify for the individual loan pricing program began in September. The new program has four interest rate classifications, AAA, AA, A, and B. Each is based on four risk factors:

- owner equity measuring overall equity in the operation;
- current and intermediate position measuring equity held by the member in non-real estate assets in the business;
- payment history on the loan during the past 3 years; and
- security position, or a measure of the amount of collateral pledged in relation to the amount of the Land Bank loan.

The "B" rate serves as the base rate. Other classifications apply to loans with increasingly less degrees of risk than those at the base rate. Rates by classification are AAA, 10.50 percent; AA, 11.25 percent; A, 12.25 percent; and B, 12.75 percent. The base rate is the same as the variable loan rate in effect since March. Land Bank borrowers now will receive an additional .25 percent reduction from their new individual rate it they use the PCA of the Midlands as their primary lender for short- or intermediate-term credit.

COOPERATIVE ACTION

Jim Barr, left, chief executive officer of National Milk Producers Federation, updated corporate board members during a summer board meeting of Dairymen, Inc., at Louisville, KY, on various legislative measures affecting the dairy industry including the Federal budget and whole herd buyout program.

At GROWMARK, Inc...

Herman Warsaw, world-record corn grower from Saybrook, IL., was honored at the recent annual meeting in Chicago for his contributions to agriculture. Warsaw harvested a new record corn yield of 370 bushels per acre from a nonirrigated research plot on his central Illinois farm in October 1985 to break his earlier world record yield of 338 bushels from 1975. The cooperative has funded a $1,000 scholarship in his name at the University of Illinois in Urbana. The first recipient is Brian Severson, Gardner, IL., a junior majoring in agronomy.

Midwest Co-ops Reorganize

Three major U.S. farm supply cooperatives in the Midwest are in the midst of reorganization in the face of continuing decline in the agricultural economy.
At Farmland Industries, Inc., Kansas City, MO, President-elect James Rainey has shuffled the cooperative's management staff and late this summer began whittling away 750 jobs or one-tenth of the cooperative's 19-State work force. Terminated employees were assisted in relocation or in finding new jobs.
During fiscal 1985, Farmland reported losses of $61 million, but interim reports substantially larger losses are in store for fiscal 1986. In the latest move, Rainey cut Farmland's field sales force from 11 to five regional offices and reduced nine operating divisions to five. Farmland Foods, a pork processing subsidiary, and feed operations were consolidated; petroleum, fertilizer, and ag chemicals placed in another unit; and finance, legal, and administrative services in a third group.

Executive Vice-President Kenneth Baer at GROWMARK, Inc., in Bloomington,IL, has reorganized his management staff after the retirement of three executives—Ross Gilfillan, senior vice president of member services and grain operations; T. E. Mulligan, senior vice president of finance; and George Neibur, vice president of field services—who were part of a larger group retiring this fiscal year.
Baer consolidated the member services and field services functions into a newly created position of senior vice president of member services headed by Marvin Weisert, former vice president of marketing. R. Earl Grossman, former group vice president of supply operations, is the new vice president of operations. Norman T. Jones becomes senior vice president of finance, Vern McGinnis vice president of corporate services.
Baer also appointed R. Stephen Carr to the new position of executive director of legal services. He had been assistant general counsel for Illinois Agricultural Association, statewide Farm Bureau. The new vice presidents, Carr and John McClenathan, vice president of grain marketing, will report to Baer.

New executives for Countrymark, Inc, at Columbus, OH, will be in place later this year. Four executives are retiring this fall including President W. Loren Chalfin and Executive Vice President Robert Scherer. Chalfin and Scherer had headed the predecessor cooperatives, Ohio Farmers and Landmark, respectively, prior to the formation of Countrymark.
Others are Vice President Weldon Blanton, former president of Michigan's Agland and Clayton Johnson, president of Mid-States Terminals, Inc., Toledo, OH, a Countrymark subsidiary. Chalfin and Johnson will continue with the cooperative until new management is in place. Chairman Donald Benschneider said the board and management have been reviewing findings of several months' study on the future structure of the cooperative.

Court Upholds Illinois Grain Handling of Refunds

Tax laws let cooperatives deduct patronage refunds paid to patrons. For most cooperatives, this "single tax" principle applies only to patronage refunds paid from net margins earned on business done with or for patrons. Other income may not be deducted even if refunded.

The United States Tax Court in *Illinois Grain Corporation v. Commissioner* (87 T.C. No. 24, decided August 18, 1986) approved a cooperative's deduction for refunds the Internal Revenue Service (IRS) argued were not eligible. The decision surveyed tax rules carefully and applied common sense standards to the facts.

Facts in the case—The court described the cooperative's operations in some detail as they related to issues raised by IRS. The cooperative marketed grain and performed other related services for member cooperatives. It arranged river transportion for patrons' grain and performed other grain marketing activities. Marketing activities included offering a deferred pricing program to members, hedging, and operating a member note program. The court said each function was an integral part of the cooperative's role in a competitive industry in which the cooperative's competitors were giant corporations with significantly more resources than available to the cooperative. Inventories and margins fluctuated widely over short periods of time.

The cooperative took steps for a number of years to place itself in a position to continue its marketing and grain movement operations in the face of market volatility and competition. For example, it had barges built which it then leased from the owner. It subleased them to companies transporting the cooperative's grain, assuring adequate barging capacity. In the year in question, the cooperative subleased its two remaining barges to Agri-Trans Corporation, an interregional barging cooperative owned by five regional cooperatives. Its barges were used, along with many others, to transport regional cooperative's products, and Agri-Trans paid rent for using the barges.

James R. Baarda
Agricultural Economist

Requirements of the deferred pricing program, hedging activities, the member note program, and widely fluctuating inventories and earnings made cash management critically important for successful operation. Cash requirements fluctuated drastically on a daily basis, resulting in day's end requirements or surpluses in significant amounts. The cooperative made overnight or overweekend cash placements when it found itself in a cash surplus position at the end of the day on which interest was earned.

Issues Raised—IRS said income from barge leases and interest from short-term investments wasn't income derived from business done with or for patrons. It was taxable income to the cooperative and its refund couldn't be deducted as true patronage refund.

Laws Applied—Internal Revenue Code lets cooperatives deduct patronage refunds paid to patrons. Patronage refunds are defined carefully, and for most cooperatives a deduction is permitted only if the refund is made out of net margins generated from business done with or for patrons, called "patronage-sourced" income. If income isn't from patronage sources, its refund may not be deducted.

IRS regulations say "income derived from sources other than patronage" means incidental income derived from sources not directly related to the marketing, purchasing, or service activities of the cooperative association. For example, income derived from the lease of premises, from investment in securities, or from the sale or exchange of capital assets, constitutes income derived from sources other than patronage."

The Court's Decision—The Tax Court said a regulation should be applied in context to particular facts of the case. It said, "In spite of the apparently clear language of the regulation, however, the law, as it has developed, shows that the language does not always means what it literally says."

The court said a better description of patronage-source income, one followed consistently by courts, was given by IRS in a 1969 Revenue Ruling. The ruling stated:

"The classification of an item of income as from either patronage or nonpatronage sources is dependent on the relationship of the activity generating the income to the marketing, purchasing, or service

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activities of the cooperative. If the income is produced by a transaction which actually facilitates the accomplishment of the cooperative's marketing purchasing, or service activities, the income is from patronage sources. However, if the transaction producing the income does not actually facilitate the accomplishment of these activities but merely enhances the overall profitability of the cooperative, being merely incidental to the association's cooperative operation, the income is from nonpatronage sources."

The court said under the definition "income derived by a cooperative from its various business activities may indeed be so closely intertwined and inseparable from the main cooperative effort that it may be properly characterized as directly related to, and inseparable from the cooperative's principal business activity, and thus can be found to 'actually facilitate' the accomplishment of the cooperative's business purpose."

The court held barge lease income was patronage sourced. It said "we are satisfied that [the cooperative's] leasing and subleasing of barges to its transportation cooperative was not an 'investment' in such barges, intended to produce merely passive rental income, but was an integral part of its overall cooperative activity in moving its patrons' grain to market."

The court also upheld the cooperative's position when it said interest on overnight and overweekend cash placement was patronage-sourced. It said the cooperative, "in the exercise or ordinary prudent business management, placed its temporary surplus funds in extremely short-term debt instruments—for the most part, overnight or overweekend loans to [a bank], or its wholly owned subsidiary. The primary purpose here was not to 'invest,' but to find a temporary parking place for its surplus funds, consistent with safety and prudent money management. We do not agree with [IRS's] contention that such placement of temporary surplus funds in short-term debt instruments constituted an 'investment' of such funds, as that term would generally be understood. [The cooperative's] actions here were entirely comparable to placing the funds in a bank account. One does not make an 'investment' in a bank account."

The court concluded, "In short, we are convinced that [the cooperative's] money management activities in this case were inseparably intertwined with the overall conduct of its cooperative enterprise, and the interest income which it earned was therefore patronage sourced..."

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Farmer COOPERATIVES

DEC 19 1986
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December 1986

United States Department of Agriculture/Agricultural Cooperative Service

A 109.11:

What Rationalization Means

Rationalization means restructuring an industry to make it more efficient. Actions include reducing the number of employees, eliminating duplicative facilities and overlapping operations, and achieving better economies of size. We frequently refer to this rationalization process as repositioning, streamlining, or restructuring. The term is unique to industrial organizations in Europe, but appears to have wide application by cooperatives in this country today.

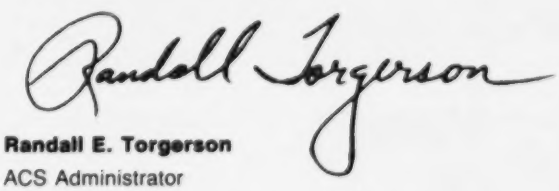
This adjustment process is receiving widespread attention from management and boards in strategic planning efforts. The reasons are fourfold: 1) competitors are new, aggressive, and encroaching on cooperatives' market shares; 2) farm production units are more diverse and cooperatives must engage in market segmentation at both customer and member level to fulfill needs; 3) farm programs are idling acreage devoted to crop production, causing farm input markets to shrink and output volumes to be lower; and 4) new technology in biotech and information fields portends a revolution in the industry comparable to mechanization and electrification.

Rationalization manifests itself at all levels of the system. Many local cooperative consolidations, mergers, and acquisitions are taking place. In a number of instances, action results from directors and managers looking at the long run. They combine operations while financial and operational strength exists. In others, it results from crisis management when a local sinks to the brink of insolvency.

Regional distribution and marketing systems are being rationalized. The proposed joint cooperative venture between CENEX and Land O'Lakes in farm supplies helps eliminate duplication in transportation and warehousing farmers can no longer afford. In dairy, citrus, and other commodities, product swapping is used to maximize plant throughput and minimize transportation costs. Joint export marketing efforts through marketing agencies-in-common, export management companies, or export trading companies are being used. Further merger and consolidation is likely.

Regional and interregional manufacturing is receiving examination for rationalization in areas such as hard product marketing of dairy products, fertilizer production and petroleum refining. Success in soybean processing has been a motivating factor.

Rationalization activities are producing a leaner and more streamlined cooperative system. It will position farmers well for the 21st Century. Needed efforts require tough decisions and enlightened leadership. The rationalization process requires new attitudes and structure. Commitment, communication, and capacity for rapid decisionmaking will be fundamental to cooperatives continued success.



Randall E. Torgerson
ACS Administrator

ACS Has Moved to 2121 K Street

The long-promised moving trucks finally arrived Halloween weekend and moved USDA's Agricultural Cooperative Service office equipment from the historic Auditors Building (circa 1879) near the Washington monument to new quarters at 2121 K Street NW in Washington, DC. The Auditors Building will be restored and remodeled. ACS Administrator Randall Torgerson said mail to agency staff members should be sent to: USDA, Agricultural Cooperative Service, Washington, DC 20250. Agency staffers will have new telephone numbers, so initially contact the administrator's office at 202-653-6976. A complete list of agency staff contacts, their area of specialty, and new phone numbers will be published in the January issue of *Farmer Cooperatives* magazine.

Farmer COOPERATIVES

December 1986 Vol. 53 No. 9

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Nation's Largest Ag Co-ops Report Cash Flow Down 7 Percent

This is the fourth and last article in the sixth annual financial profile of the 100 largest U.S. agricultural marketing and farm supply cooperatives. It analyzes changes in operational (cash flow) and nonoperational sources of funds and their application. Other articles in the September, October, and November 1986 issues covered changes in revenues, operating results, combined balance sheet, distribution of net margins, per-unit capital retains, and sources of debt.

Revenues of the Nation's 100 largest cooperatives fell to their lowest level in 5 years and net margins dropped 44 percent, because of continuing agricultural depression in 1985. Writedowns on investments in two large interregional associations were a significant factor in reducing net margins of several regional cooperatives. Losses on asset disposals also reduced earnings of a number of cooperatives.

Donald R. Davidson
Jeffrey S. Royer
ACS Agricultural Economists

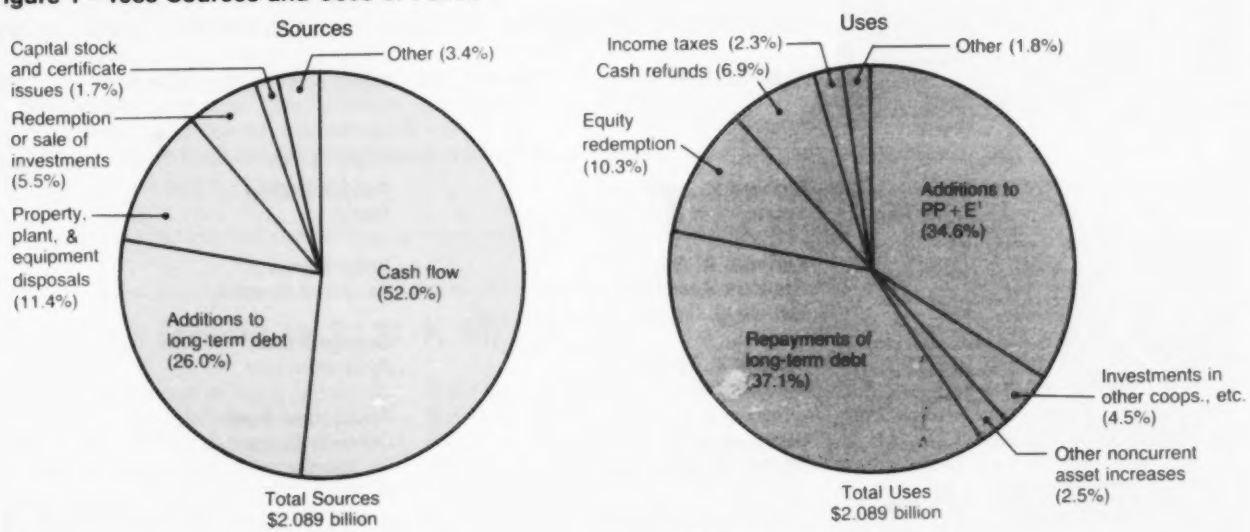
How did these factors affect total sources and uses of funds? Did negative cash flow situations become more prevalent? Were cooperatives forced to dispose of more fixed assets? Did the use of long-term debt increase, capital expenditures drop, and redemption of equity slow? In short, did depletion of working capital cause a liquidity problem?

Answers to these and other questions on the financing and investing activities of the Top 100 emerge from studying the combined statements of changes in financial position (table 1).

Some major changes in sources and application of funds for the Top 100 in 1985, compared with 1984, are:

- cash flow (funds from operations) down 6.9 percent to $1.09 billion, with farm supply group responsible for most of the decline. Fruits and vegetables, dairy, and other groups increased;
- net margins (cash flow element) down $189 million to $241 million, largest dollar change of any item;
- total sources of funds up 6.2 percent to $2.09 billion;
- cash flow down from 59.4 to 52 percent of total funds provided;
- additions to long-term debt (largest nonoperational source) up 21 percent to $544 million;
- asset liquidations (mostly disposals of property, plant, and equipment) up 36.2 percent to $395 million;
- capital expenditures (mainly outlays for property, plant, and equipment) up 8.1 percent to $868 million;

Figure 1—1985 Sources and Uses of Funds



¹Property, plant, and equipment.

- repayments and current maturities of long-term debt up 7.5 percent to $775 million, exceeding additions by $231 million;

- cash payments to patrons up 2.2 percent to $373 million with entire increase coming from retirement of prior years' equity;

- redemption of equity up 14.3 percent to $216 million; and

- working capital up slightly to $2.35 billion.

Lower Earnings Cut Cash Flow

Total sources and uses of funds, after declining 4 consecutive years, increased 6.2 percent in 1985, reaching the $2 billion-mark again (fig. 1). However, this figure was still less than the $2.25 billion employed in 1983 and 25.4 percent below the $2.80 billion used in 1980.

Cooperatives (and other business organizations) obtain funds from two major sources, operational and nonoperational (table 1). As a rule, the higher the proportion of funds provided by operational sources (referred to as cash flow) the stronger the financial position.

Based on this indicator, the financial position of the Top 100 slipped some in 1985 because its cash flow/total funds ratio dropped from 59.4 to 52 percent (fig. 2). However, its financial position was still considerably better than in 1982 and 1983 when nonoperational sources provided 65.5 and 57.4 percent of total funds respectively.

Total funds from operations of the Top 100 took a beating in 1985 because one of its chief elements, net margins, dropped sharply. The $189 million (44 percent) slump in net margins represented the largest dol-

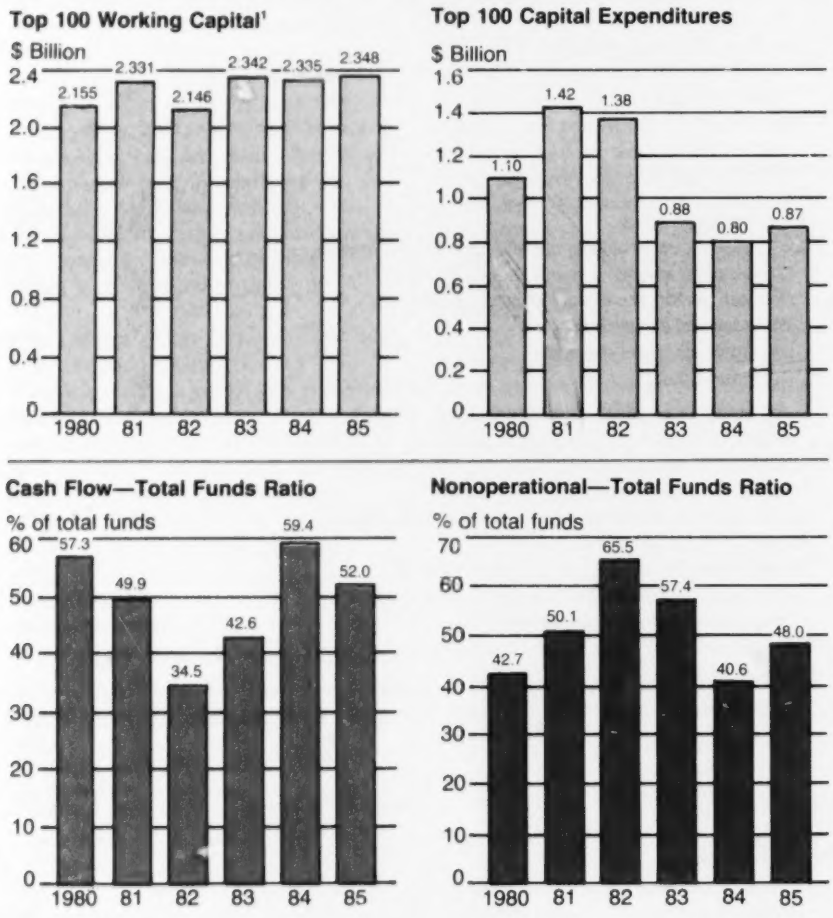
Table 1—Combined statements of changes in financial position[1]

Item	1984	1985
	Million dollars	
FUNDS PROVIDED		
Operational sources:		
Net margins[2]	$ 430	$ 241
Per-unit capital retains	155	165
Add charges (deduct credits) not affecting working capital:		
Depreciation, amortization and depletion	607	614
Noncash portion of patronage refund income	(43)	(43)
Write down of investments	4	51
Loss (gain) on asset disposals	(7)	27
Other items, net	22	32
Total from operations (cash flow)	1,168	1,087
Nonoperational sources:		
Additions to long-term debt	448	544
Capital stock/certificate issues and other equity increases	44	35
Noncurrent asset liquidations:		
Disposals of property, plant, and equipment	163	238
Proceeds from redemption or sale of investments	98	115
Other noncurrent asset decreases	29	42
Other sources	10	28
Decrease in working capital	7	—
Total from nonoperations	799	1,002
Total sources	1,967	2,089
FUNDS APPLIED		
Capital expenditures:		
Additions to property, plant, and equipment	661	723
Investments in other co-ops, joint ventures, etc.	74	94
Other noncurrent asset increases	68	51
Repayments and current maturities of long-term debt	721	775
Cash payments to patrons:		
Redemption of equity	189	216
Patronage refunds	161	145
Dividends on capital stock/certificates	15	12
Payment of income taxes	49	48
Other uses	29	12
Increase in working capital	—	13
Total uses	1,967	2,089

[1]Identical 100 cooperatives used in 1984 and 1985.

[2]After net losses and extraordinary items but before income taxes or credits and patronage refunds.

Figure 2—Selected Financial Ratios and Trends



[1]Excess of current assets over current liabilities.

lar change of any item on the funds statement. Its decline proved too much for increases in other operational elements to absorb, causing an $81 million (6.9 percent) reduction in cash flow last year (fig. 3).

Fig. 4 shows the elements and what each contributed to total cash flow of $1.09 billion. Noncash expenses—depreciation, amortization, and depletion—were the largest items, accounting for 56.5 percent of total cash flow versus 52 percent in 1984. Net margins provided only 18.2 percent compared with 37 percent in 1984.

Several cooperatives using per-unit capital retains included this source of equity capital as a nonoperational source of funds on their financial statements. However, ACS included this method of financing—unique to cooperatives—as an element of cash flow (fig. 4) because of its close relationship to operations. Because of a big drop in net margins, per-unit capital retains became a more important cash flow factor, supplying 15.2 percent versus 13.3 percent in 1984.

Two noncash charges hardly in the picture in 1984 had the largest increase of any cash flow element. Writedown of investments was up nearly 13-fold (table 1), accounting for $51 million of cash flow. Loss (gain) on asset disposals went from a negative $7 million to $27 million. Primarily, writedowns were related to regional investments in export grain marketing and barging interregionals.

Supply Group Causes Decline

Looking at cash flow changes from a commodity standpoint reveals the farm supply group was primarily responsible for the cash flow decline of the Top 100. Although operational funds of the group decreased $129 million (36 percent), it still had the second largest cash flow of any group and accounted for 21.1 percent of the total (fig. 5). In 1984, the farm supply group had the most cash flow, supplying 30.6 percent of the total.

Three other commodity groups, grain, diversified, and cotton, also earned less cash flow. The $14 million (23 percent) decrease in the grain group reduced its share of total cash flow from 5.1 percent in 1984 to 4.2 percent (fig. 5). Diversified and cotton had nominal declines (5.5 percent and 3 percent, respectively) with their share of the total remaining about the same each year.

In 1985, the dairy group generated

Figure 3—Top 100 Net Margins and Cash Flow

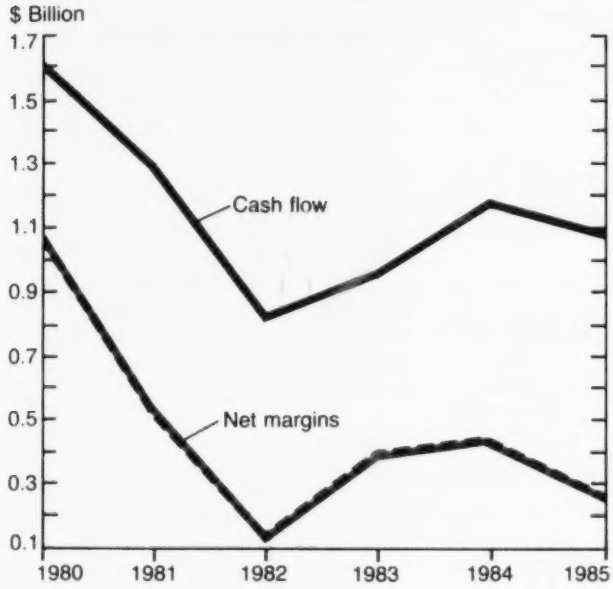
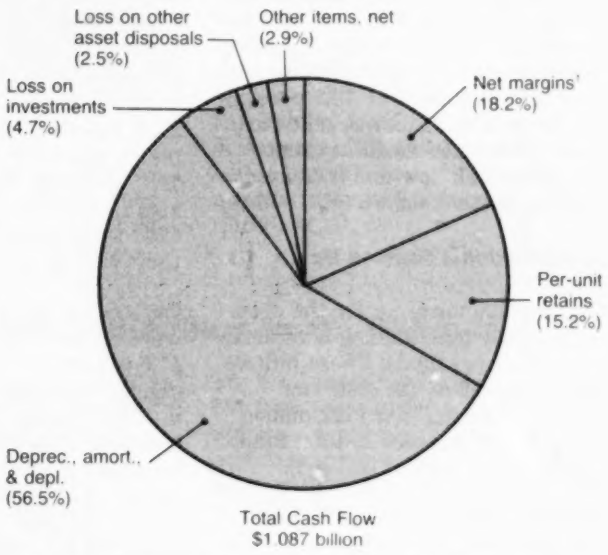


Figure 4—1985 Cash Flow Elements



[1]After deducting noncash portion of patronage refund income.

Figure 5—Cash Flow by Commodity Group, 1985

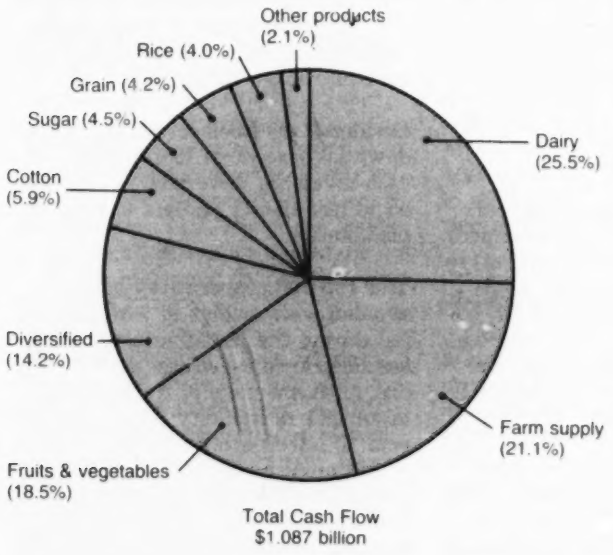
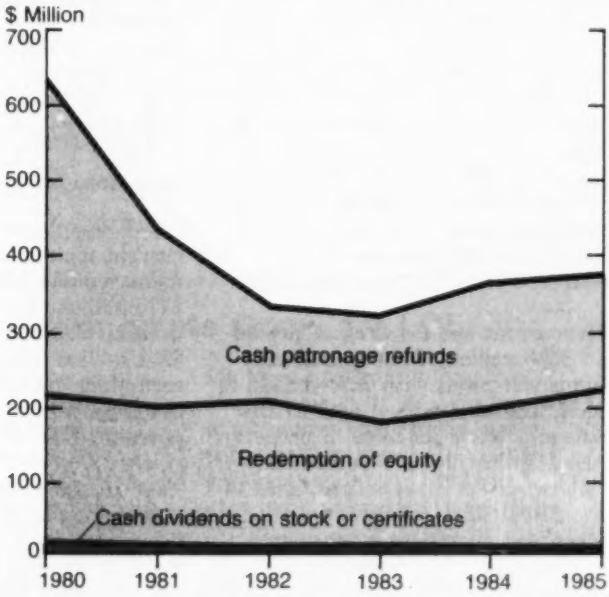


Figure 6—Top 100 Cash Payments to Patrons



6.5 percent more cash flow than in 1984. It accounted for 25.5 percent of total cash flow, most of any group (fig.5). The fruit and vegetable group raised cash flow 25 percent last year and increased its share of the total from 13.8 percent to 18.5 percent. Likewise, the rice, sugar, and other-products groups had more cash flow and increased their respective shares.

Nonoperational Sources Up

The Top 100 made up for the drop in cash flow by obtaining additional nonoperational funds. These inflows more than offset the cash flow decline, resulting in a $122 million (6.2 percent) increase in total funds provided and applied (table 1).

These changes in the operational-nonoperational mix raised the nonoperational/total funds ratio from 40.6 to 48 percent (fig. 2). However, this was a more favorable situation than in 1982 when nearly to two-thirds of total funds provided came from nonoperational sources.

Nonoperational inflows came from two major sources: additions to long-term debt and noncurrent asset liquidations. Although additions to long-term debt of $544 million (table 1) was 21 percent greater than the preceding year, it accounted for 54 percent of total nonoperational sources versus 56 percent in 1984.

Noncurrent asset decreases provided $395 million of nonoperational funds compared with $290 million in 1984. The two major items in this category were disposals of property, plant, and equipment and redemption or sale of investments. Most of the $105 million (36.2 percent) increase in liquidating noncurrent assets came from property, plant, and equipment disposals. Such asset liquidations furnished 40 percent of nonoperational sources in 1985 versus 36 percent in 1984.

Capital Expenditures Up

Capital expenditures increased 8.1 percent to $868 million. Although the largest application of funds, they were still far below the $1.42 billion and $1.38 billion spent in 1981 and 1982 (fig. 2). Financial outlays to build noncurrent assets in 1985 were nearly 40 percent below their 1981 peak.

Outlays for capital expenditures were up $65 million, representing 41.6 percent of total applications (fig. 1) compared with 40.8 percent in 1984. During 1981 and 1982, spending on noncurrent assets accounted for 55 and 58 percent of total uses respectively.

Additions to property, plant, and equipment have been the major capital expenditure (fig. 1), accounting for more than 80 percent of such outlays in both years. Spending on fixed assets of $723 million was $62 million (9.4 percent) higher than in 1984. After falling sharply in 1984, investments in other cooperatives, joint ventures, etc., increased $20 million or 27 percent (table 1).

Debt Repayments Higher

Funds applied to repayments and current maturities of long-term debt increased $54 million (7.5 percent) to $775 million. They exceeded additions to long-term borrowing by $231 million (table 1). This reduced term debt outstanding on the combined cooperative balance sheet 6.1 percent to $3.58 billion.

Table 1 also shows funds used to reduce long-term debt exceeded any other single application, representing 37.1 percent of total applications (fig. 1) versus 36.6 percent in 1984. This compares with 34.6 percent for additions to property, plant, and equipment in 1985 and 33.6 percent in 1984.

Increased Equity Redemption

Total cash payments to patrons were up 2.2 percent to $373 million (fig. 6), all of it from equity redemption. Funds applied to cash patronage refunds dropped $16 million in 1985 and cash dividends on capital stock or certificates decreased $3 million. However, the Top 100 redeemed $27 million more of prior years' equity. Equity redemption payments totaled $216 million or 14.3 percent higher than in 1984.

Redemption of equity accounted for 58 percent of total cash payments to patrons; patronage refunds, 39 percent; and dividends on capital stock or certificates, 3 percent. Equity redemption payments have remained fairly stable over the past 5 years (fig. 6).

Retirement of equity was 10.3 percent of total funds applied in 1985 (fig. 1). For the past 4 years, equity redemption payments have exceeded cash patronage refunds.

Dividends on stock/certificates were down 20 percent in 1985. Since 1980, cash dividends have always amounted to less than 1 percent of total applications.

The Top 100 cooperatives have avoided wide swings in working capital during the past five years. This has been true especially since 1982 (fig. 2). A shortage of working capital or lack of liquidity doesn't appear to have been a serious problem. Although total funds employed in 1985 were 25 percent below the $2.8 billion used in 1980, working capital has increased nearly 9 percent during this period from $2.16 billion to $2.35 billion. ■

LOL, CENEX Boards of Directors Approve Joint Venture Proposal

The boards of directors of Land O'Lakes, Inc. (LOL), and CENEX, Inc., Minnesota-based regional cooperatives, have endorsed a proposal for consolidating their agricultural supply operations aimed at saving the two cooperatives $10 million annually. Each cooperative will retain its marketplace identity.

Final approval awaits a decision by each coperative's shareholders during fall district meetings. Results of voting will be announced in early December. Both LOL Chairman Claire Sandness and CENEX Chairman Ed Melby saw improved operating efficiencies from the move in the production and distribution areas.

Sandness said it "heralds a new spirit of cooperation among cooperatives and an ideal way for both coperatives to streamline and become more efficient." Melby said the agreement "allows each cooperative to focus energies on areas of greatest strength and market expertise."

CENEX President Darrell Moseson said the proposal was a "combination of teamwork, positive adjustment to changing economic conditions, and continued commitment to shared cooperative principles" in generating better returns for members. LOL President Ralph Hofstad said it was an important first step in needed cooperative consolidation.

LOL will operate its feed and seed divisions and lease and manage CENEX's comparable assets. In turn, CENEX will operate its petroleum and energy areas and expand by leasing LOL's comparable programs. The cooperatives will form a joint venture to manage their fertilizer and agricultural chemical divisions.

Each regional operates separate agricultural service divisons. They supply individual farmers and local cooperatives with feed, seed, fertilizer, chemicals, petroleum products, and other agricultural products and services. Both cooperatives serve overlapping territories.

CENEX had after-tax net margins of $426,000 for 1985 based on sales of $1.37 billion. LOL showed after-tax net margins of $11.5 million based on sales of $2.26 billion. Both cooperatives ranked among the Nation's 500 top corporations listed by *Fortune* magazine. Both cooperatives would jointly own 45 percent of National Cooperative Refinery Association, an oil refinery in McPherson, KS, and 37 percent of CF Industries, Inc., Chicago-based manufacturer and distributor of fertilizer. ■

Co-ops to Share $46 Million in Oil Refunds

Agricultural cooperatives will receive about $46 million as compensation for stripper-well overcharges and other crude oil pricing violations by major oil companies between 1973 and 1981, according to the National Council of Farmer Cooperatives (NCFC).

The award culminates several years of efforts by the council and petroleum cooperative members. Nearly $35 million has been transferred by the court to an agricultural cooperative escrow account at the U.S. Trust Company in New York. The fund is earning interest pending distribution to regional petroleum supply cooperatives next May. An additional $11 million will be placed in the escrow account for distribution in 1 year.

The total settlement involving about $5 billion—primarily to Federal and State governments, refiners, transportation groups, electric utilities, and agricultural cooperatives—is the largest ever negotiated. Petroleum cooperatives were accorded a unique status as "end users," because their farmer-customer is also the owner of the business. The amount allocated to refiners, around $300 million, will be used to settle another long-standing litigation involving crude oil entitlements (a method of equalizing crude oil costs among refiners during the price control era). As a result, cooperative refiners avoided about $10 million in potential liabilities and have received an additional $1 million in cash.

Hofstad Sets Intermediate Goals for LOL

What posture should a cooperative president and chief executive officer take during his last 3 years in office? Ralph Hofstad, Land O'Lakes' executive, recently pondered the question and set some intermediate goals for his cooperative in the next 2 years. "We will continue to emphasize a growth mode for foods and international areas. For dairy and ag services, we will emphasize a reposturing position, after which we anticipate resuming emphasis on internal growth." Hofstad indicated he would be 65 in less than 3 years and didn't plan to hold any chief executive officer responsibilities beyond that age.

Nationwide Gives CARE $50,000 Gift

Nationwide Insurance, Columbus, OH, has made a $50,000 "birthday" contribution to CARE in honor of the international aid and development organization's ruby (40th) anniversary. The late Murray D. Lincoln, who headed Nationwide for 38 years and was its president for 25 years before he retired in 1964, was a founder of CARE, its president from 1946 to 1957, and board chairman from 1957 until his death in 1966.

Tree Top Juices Available on U.S. Fleet

Ships Afloat, a food service distribution to the mess halls, commissaries, and convenience stores on 600 ships in the U.S. Fleet, is scheduled to offer Tree Top products on most of the ships in the fleet. Military sales are expected to increase fourfold over the next 5 years under an aggressive new marketing program.

Gold Kist Computer Links Small Elevators

A new computer system linking 15 small elevators with the regional office of Gold Kist, Inc., Atlanta, has been installed as a money and time saving measure. The terminal link enables elevator managers to end duplicate payments, virtually eliminates payment errors, cuts personnel costs, and relays all transactions to the main computer at Gold Kist. The new equipment will save about $30,000 in maintenance costs.

Inter-State Distributes $493,572 in Patronage

Inter-State Milk Producers' Cooperative, Southampton, PA, has distributed $493,572 in patronage refunds to 2,965 members, according to Treasurer Evan L. Fineman. This payment represents 80 percent of allocated net margin for the fiscal 1974. It is the 41st payment from the cooperative's revolving fund account. "Since the account began in 1936, Inter-State has returned more than $6 million to its members," Fineman said. The dairy cooperative currently revolves its patronage refund on a 12-year schedule.

State Earns Iowa REC Patronage Check

Iowa Gov. Terry Branstad attended the annual meeting and accepted patronage dividend checks for various State agencies served by Eastern Iowa Light and Power Cooperative, Wilton, IA. The State's share of the co-op's patronage return of $536,703 was $1,089. The total return was highest in the cooperative's history. It was paid to members taking electric service during half of 1972 and all of 1973 and 1975. None was paid for 1974, a bad financial year for the cooperative.

Apples, apple juice, and cider are popular attractions at Tree Top's old commodity wagon near the entrance of Disneyland's new theme park, Big Thunder Ranch, at Anaheim, CA. The cooperative dispenses an average of 15,000 servings of cider and apple juice plus top quality Washington State Red Delicious apples from Tree Top members at the wagon. Gathered around the wagon at its opening this summer were Johnny Appleseed and Mickey Mouse and Tree Top staffers Bonnie Peterson, Steve Snell, Fred Weise.

GROWMARK Margins $11.8 Million for 1986

GROWMARK, Inc., Bloomington, IL, reported margins for fiscal 1986 of $11.8 million on sales of $78 million to shareholders at its recent annual meeting in Chicago and announced plans to expand the ADM/GROWMARK grain marketing program into Iowa and Missouri this fall. Audited financial results for the year ending Aug. 31, 1986, showed total assets of $316.9 million. Dollar sales by the supplies division were down 11 percent from 1984, due mostly to decreased prices. Bushels of grain originated from member cooperatives by GROWMARK were up 22 percent from last year. Since the joint effort between Archer Daniels Midland Company (ADM) and GROWMARK was formed Oct. 1, 1985, 14 terminal operations of both firms along the Illinois and Mississippi Rivers were combined within a wholly owned subsidiary of ADM called, ADM/GROWMARK. GROWMARK is an investor in ADM stock and originates grain from Illinois cooperatives for ADM processing plants in Illinois.

Agri-Mark Margins Top $5 Million

After tax net margins for fiscal 1986 reached $5.3 million, reported Paul P. Johnston, chief executive officer at the August board of directors meeting. Johnston said this return was the best in the cooperative's 6-year history, a continuation of the trend of increased margins as the cooperative's marketing system matures, and a result of funds recovered from overfunding of the cooperative's pension program in past years.

Margins for 1986 averaged about 20 cents a hundredweight on member milk marketed by the cooperative. About 17.8 cents per hundredweight is being allocated directly to members (in cash or to equity account) and the remainder retained as unallocated equity.

At Countrymark

Donald E. Benschneider, chairman of Countrymark Inc., Columbus, OH, indicates a nationwide search has began for a new president and chief executive officer of the cooperative to replace W. Loren Chalfin who earlier announced retirement plans. Chalfin will stay on the staff until a successor has been named and joines the cooperative.

MMI Buys Cheese Plant

Milk Marketing Inc. has completed purchase of Jacobo Marti and Sons, Inc./Farmers Cheese plant, New Wilmington. The cheese company and Jacobo Marti and Sons will continue with present management and personnel, MMI announced. MMI General Manager J. Gordon Riehl, the acquisition fits into long-range plans and objectives of MMI and should benefit the 8,300 producer-owners of the cooperative.

Wisconsin Fairgoers Like Cheese

Morning Glory Farms' "Light" Cottage Cheese was one of only 19 Wisconsin food products to earn the "Wisconsin State Fair seal of excellence" as a result of taste-testing during the 1986 fair's consumer preference survey. Forty-six Wisconsin food companies submitted 90 products for taste-testing this year. The cooperative's cottage cheese received an excellent rating from 84.2 percent of all consumers surveyed. An estimated 31,000 people participated in the seventh annual survey.

Continental, Harvest States Share Elevator

Continental Grain Co., New York, and Harvest States Cooperative, St. Paul, have signed an agreement for joint use of Harvest States' export elevator at Superior, WI. Under the agreement, which involves a portion of the grain storage capacity and throughput at the 18-million-bu elevator, Harvest States will provide office space at the facility for Continental personnel to handle grain settlements and logistics.

CFC Margins Down for 1986

Year-end financials for the National Rural Utilities Cooperative Finance Corporation (CFC) Washington, DC, show margins of $25.6 million for fiscal 1986 a decrease of $6.4 million compared with 1985. CFC's assets increased by $124 million, finishing the fiscal year at $3.174 billion. At year's end, actual loans outstanding amounted to $2.87 billion (an increase of 3.1 percent), and total guarantees outstanding stood at $2.97 billion (an increase of 22.6 percent).

During the past year, loans to three financially stressed G&T systems were classified as "non-performing loans," and were placed in a newly establish separate loan pool. The decrease in CFC's annual margin was primarily due to the allocation of monies to its loan loss reserve fund, with $10.6 million in "non-performing loans" charged against this reserve.

Member equity in CFC increased during the year by $88 million to nearly $1.24 billion. Member investments in CFC through equity, plus investments in CFC commercial paper, equaled 70 percent of CFC's total capitalization. At year-end, rural electric systems had nearly $1 billion invested in the program.

On June 1, 1986, CFC returned $14.1 million of capital credits to its member patrons, based on their use of CFC loan programs.

Eastern Milk Buys New Home

Eastern Milk Producers Cooperative has purchased a new headquarters facility in Syracuse, N.Y. and began operating out of it in mid-October. The new co-ops new home, located at 2401 Burnet Ave., "is slightly bigger and a better building" General Manager Michael Donovan said.

The co-op saved money by buying the new building

for less than it sold its older complex. Eastern, with more than 200 employees, (45 in Syracuse) and nearly 4,000 member farmers, owns two cheese plants in New York's southern tier and leases them to Leprino Foods. It also owns a milk bottling plant at Homer, NY; a butter and powder plant at Grover, PA.; and milk-receiving plants at Sunbury, PA.; Dover, DE.; and Hinesburg, VT. Eastern's Dairy Products Division in Canton, PA., operates four dairy stories in Pennsylvania and New York, and a bulk-buying service for farmers in 11 states.

Calcot Pays $45.3 Million to Members

The second-largest final settlement by Calcot Ltd. Bakersfield, CA, history was announced at the common marketing cooperative's 59th annual meeting. Some 3,300 members who market their cotton through Calcot, received final settlement checks totalling $45.3 million. The settlement is the final payment made to members on their 1985-86 cotton crop. Calcot had previously made four payments to members since they harvested their cotton last fall.

Grape Research Fund Honors Kaplan

National Grape Cooperative Association, Inc. board of directors, has voted unanimously to name national's viticultural research fund the J.M. Kaplan/National Grape Fund. The designation is to honor Jack Kaplan for his untiring efforts on behalf of National, Welch Foods, and the Concord grape industry. Kaplan strongly supported the original organizing efforts of National Grape Co-operative in 1945 and later made it possible for National to purchase Welch Foods in 1956.

Agri-Mark Begins Premium Payments

Agri-Mark dairy cooperative at Lawrence, MA, has begun charging its fluid milk customers a $0.25 per hundredweight "pass through" premium on all of the milk they purchase from the cooperative. Proceeds from the premium will be pooled and "passed through" directly to the cooperative's 2,800 dairy farmer members. Agri-Mark will charge its fluid milk purchasing customers this said premium until the milk supply situation in the New England market changes. "Supplies are tight in the market because of increasing consumer sales and USDA's whole-herd buyout program," says Agri-Mark President Paul P. Johnston.

Bernice L. Cojo, center, planner for the Rama Navajo rug weaving women from New Mexico, presents information to Randall Torgerson, ACS administrator during a recent meeting in Washington, DC. ACS has been helping the Navajo women develop a cooperative aimed at improved marketing of their hand woven wool rugs. Looking on are Stuart Jamison, left, executive secretary of USDA's Office of Governmental and Public Affairs, and Nellie Pino, right, one of the weavers.

Ag Processing Inc. Margins Down

James W. Lindsay, general manager and chief executive officer of Ag Processing Inc., Omaha, NE, has announced net margins exceeding $2 million for fiscal 1986 based on sales of $625.4 million, compared with fiscal 1985 margins of $8.1 million based on sales of $643.4 million. Margins were down because the U.S. processing industry continued to operate substantially below capacity. Brazilian and Argentinian soybean production was marketed almost in its entirety during the April-August period, in anticipation of projected lower U.S. prices later in the year. U.S. imports of palm oil, second largest on record, along with the lowest soybean oil exports in a decade, have created burdensone supplies and cut the price of soybean oil.

Restaurants Use Riceland Vegetable Oil

Burger King has begun using Riceland Food's Chefway pourable clearfry vegetable oil for use in preparing chicken and fish sandwiches in 86 of its restaurants in the southeastern United States. In other news from the co-op, Riceland Food's 23 affiliated grain driers had consolidated net margins of $6.5 million based on total revenues of $28.3 million during fiscal 1986. The results compare with $6 million in 1985 and the record $7.8 million set in 1981-82. The cooperatives will distribute $4.9 million as patronage refunds to members. Local grain drying cooperatives earlier distributed $6.9 million as interest on equities and equity redemptions and spent $2.6 million for capital improvements in 1986.

Land O'Lakes Buys IMC Fertilizer Plants

Land O'Lakes, Inc. (LOL), the Minneapolis-based regional cooperative, and International Minerals and Chemicals (IMC) Corp., Mundelein, IL, have announced LOL's purchase of 24 retail fertilizer plants from IMC. One of the plants is in Minnesota, two each in Nebraska and Wisconsin, and the rest in Iowa. Purchase price was not disclosed.

Gillette Citrus Joins Sunkist

Gillette Citrus Co., a family owned grower, packer, and shipper in the Orange Cove (CA) area, has affiliated with Sunkist Growers, Inc., for marketing services. Gillette brings the number of new Sunkist affiliates over the past 2 years to 10 and an increase in volume of about 11 million cartons. The firm had been associated previously with Pure Gold Cooperative.

Baltimore Banks Cut Loan Rates

New lending programs and lower mortgage interest rates for farm and rural home loans have been announced by Baltimore Farm Credit Banks. "Potential borrowers may qualify for adjustable rate mortgages. They vary from a low of 9.25 percent to 11.50 percent," according to President Gene L. Swackhamer. The interest rate can be fixed for 3, 5, 10, or 15-year periods, but the loan may be amortized over longer periods. All standard 30-day variable rate mortages were reduced from 11.25 percent to 10.75 percent.

Canadian Co-op Volume Up in 1984

Business volume of Canadian cooperatives moved up about 8 percent in 1984 to $14.9 billion. Marketing accounted for two-thirds of the volume. Consumer and supply sales gained $239 million; service revenue was up $85 milllion, and other income increased $41 million. Total assets rose 4 percent to $6.1 billion. The full report is available from Cooperatives Section, Marketing and Economics Branch, Agriculture Canada, Sir John Carling Building, Ottowa K1A OC5, Canada.

Maine Potato Growers Sales Top $43 Million

Gerald Systema, general manager of Maine Potato Growers (MPG), Inc., Presque Isle, reports record sales of $43.5 million and net margins of $330,000 for fiscal 1986. The diversified cooperative provides potato and grain marketing, bag manufacturing, dairy processing and distribution, and energy and farm supply sales including trucks and farm implements. These sales were in spite of disasterously low potato prices in 1985. The industry rebounded in 1986 with $10 to $15 per barrel potatoes instead of $1 to $2 prices in 1985. The cooperative made two acquisitions during the year in potato marketing. They are operated as majority owned subsidiaries—Red Ball Potato Company of Caribou and Washburn Potato Company. Water Reed, Jr., grower president, said board and management had decided on "selecting pruning" during the year by eliminating marginal egg, potato processing, and tire departments, and reducing the cooperative's fluid distribution area. As part of its long range plan, MPG has adopted a new mission statement—"To maintain and continue expanding a profitable cooperative enterprise, providing a diverse group of goods and services for the economic benefit of members, supplemented by a strong social and educational commitment to this agricultural region."

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'Marketplace Didn't Allow Things To Be As They Seemed': Nielsen

Editor's Note: On these adjoining pages are the reflections of two long-term cooperative leaders who recently retired after extensive careers working with Midwest cooperatives. Each leader offers some current perspective on the times and express hope for an improved future for cooperatives. The articles were derived from columns each wrote for publications of their organizations and subsequently edited for use here.

My presidency and 35-year career with this organization are drawing to an end at a time when the cooperative system is passing through its darkest hour. It's a sobering, even traumatic, time for me and others who have invested careers in the rightness and soundness of the cooperative mission.

Such times can even lead to some second-guessing as to whether or not cooperatives have a place in the new agriculture emerging so rapidly.

I for one remain convinced the changing times don't change the need for cooperatives. Oh, to be sure, the need for them isn't as apparent when they are in place and functioning. But let them disappear and it wouldn't be long before farmers would be busy organizing them once again.

That's because they would need their cooperatives, just as they did at the peak of co-op organizing activity some 50 to 60 years ago, to: (1) bring down exorbitant prices for farm supplies, (2) improve prices for products they sell, (3) deal with unfair practices in marketing or sales of products, and (4) improve quality of items they purchase or sell.

Kenneth Nielsen
Retired President
Farmland Industries, Inc.

In looking back, perhaps it's good to confess farmers and their cooperatives are subject to the same euphoria in good times as other businesses. Blame for decisions that turn out wrong most often can be apportioned throughout the system. When regional (cooperative) margins are large, there is pressure from the members to pay back a sizable portion of the patronage refund in cash. When shortages occurred, there was pressure from members to build more facilities. Commitment to support such moves, however, was not as binding as it needed to be.

When grain exports appeared to be the wave of the future, there was considerable pressure from members for cooperatives to be a part of the boom. Unfortunately, the boom fizzled and, again, financial and sales commitment from members wasn't sufficient to support the effort to join the ranks of major exporters.

Marketplace At Work

In times like these, it is wise to remember things aren't always as they seem. For instance, in recent years it seemed cooperatives could build and expand with financing from earnings; grain exports would ever increase; and we'd never have enough petroleum or enough natural gas for nitrogen fertilizer. But things, it turned out, weren't as they seemed. The marketplace didn't allow things to be as they seemed.

Now it seems agriculture will always be in the doldrums and the manufacturing co-ops will have constant problems. It seems there isn't the need today for co-ops as there was in the early days and during the periods of shortages. But I maintain things today may not be as they seem. The marketplace is still at work.

In my short 3-plus years as president, Farmland has initiated changes, some of them painful. Now, my successor is carrying those changes further. In "listening post" sessions with members, Jim Rainey has sought views of just what Farmland should be, just what services members expect, and what value they place on them. The emerging Farmland will be the kind they are willing to commit themselves to.

I remain convinced the foundation has been laid in recent years for rebuilding a Farmland cooperative system that once again will prosper and be stronger for having gone through this time of adversity. ■

Co-op Butter in New York Promotion

Ten million special "Made in New York" butter patties have begun gracing the tables of restaurants all over the State. This is the first time butter patties for restaurant use have been manufactured in New York. The patties were made by O-AT-KA Milk Products Cooperative, Inc., an agricultural marketing cooperative owned jointly by Dairylea Cooperative, Inc., Niagara Milk Cooperative Inc., and Upstate Milk Cooperatives, Inc. O-AT-KA, the largest butter producer in the State, had earlier signed a $44,000 contract to do a feasibility study for the State's Department of Agriculture and Markets on the production and marketing potential of butter patties in New York. The intent of the program was to find new markets for milk produced in the State.

'Participation in Co-ops Gives Farmers Greater Strength, Stability': Slettom

It has been my pleasure to have served as your (association) executive director during the past 30 years. We have seen many changes in the cooperative development of Minnesota.

The number of agricultural cooperatives has decreased by 50 percent. The remaining cooperatives are larger and more diversified. There have been many consolidations, mergers, and acquisitions, particularly among the dairy cooperatives. Today, we see this activity extending to grain marketing and farm supply cooperatives. The desire of members to reduce duplication of effort and promote greater efficiencies has been an important factor.

Cooperatives have still kept their character as mutually owned and controlled business enterprises with gains distributed to the patrons on a patronage basis. These three principles must be maintained in order to keep cooperatives as unique enterprises in the business world. We see cooperatives as people with a mission to solve problems and provide services which individual effort may not be able to do. This requires a special kind of dedication and willingness to work together. Minnesota Association of Cooperatives (MAC) has been an integral part of that effort.

Since this will be my last opportunity to offer editorial comment, I wish to say a bit about why I feel good in having worked on behalf of cooperatives these many years.

I firmly believe cooperatives serve a unique and vital role in our competitive economy. In addition to the business functions which are familiar to all, cooperatives broaden the base of ownership in our economic system to a greater number of people and serve as a balance wheel in combatting monopoly. They are an economic tool people can use if there is unreasonable price gouging or restraint of trade.

Edward E. Slettom
Retired Executive Director
Minnesota Association of Cooperatives

Assets to Communities

Cooperatives mean additional money for our communities. They reverse the draining away of resources because any margins are kept in the community and belong to the people whose business generated them.

Cooperatives provide an opportunity for self-improvement. In our State alone, several thousands of people serve on boards of directors. This activity in itself provides opportunities for leadership growth and community service.

Cooperatives promote community togetherness by cutting across all political, racial, religious, and social issues, and promote a deeper belief in our democratic system of resolving issues. They have a built in strength of benefit to the community. They are locally owned and controlled and share local concerns of the community.

Cooperatives provide people with a voice in the quality of supplies they need and make it possible for them to secure services not otherwise available at a reasonable cost.

While the cooperative idea provides a vehicle for people to use in accomplishing objectives or goals not readily attainable by individual effort, their participation in the cooperative doesn't diminish individualism. Rather, it strengthens it. This is particularly true in agriculture where individualism has long been inherent in our system of farming and is basic to the individually owned and family operated farm. The active participation by millions of farmers in cooperative effort has provided them with greater strength and stability than would otherwise exist.

Cooperatives in the future may change in size and scope of activities, but as long as control rests with the individuals who own them and gains are the patrons' property, they will continue to serve their intended purpose. This form of doing business will hopefully always be available to people who have mutual problems to solve and are willing to cooperate with one another. ■

Co-op Exports Top $3 Billion for 1985

Eighty-seven cooperatives reported exports amounting to more than $3.3 billion for 1985, according to preliminary results of a survey of cooperative exports by USDA's Agricultural Cooperative Service. Early totals of some of the major commodity groups indicate cooperative grain exports of more than $1.7 billion, cotton at more than $400 million, fruit products at $377 million, and oilseed products at $390 million.

Cooperative exports to Southeast and East Asia are estimated at $764 million, while European destinations accounted for more than $468 million. Final figures, including cooperative shares of U.S. exports will be available soon from the agency and be the subject of an article in *Farmer Cooperatives* magazine early next year.

PEOPLE NEWS

Pamela Kitzman. . .

communications coordinator for Wisconsin Dairies Cooperative at Baraboo since May 1985, has been honored by the Wisconsin Council on Developmental Disabilities for coverage of the disabled during 1985 while a reporter on a Baraboo newspaper. The contest is designed to promote better media coverage and thus enhance public acceptance of the needs, desires, and accomplishments of people with disabilities.

Byron Ulery. . .

feed mill manager at the Farmway Co-op, Beloit, KS, since 1982, succeeds Francis (Fritz) B. Gwin as general manager. Before joining the cooperative as feed mill manager trainee in 1981, Ulery worked for Farmland Industries in various capacities. Gwin, who is chairman of Farmland's board of directors, had managed the Beloit co-op since 1969. He will continue to serve on the Farmland board until his director term expires in December 1987.

Kenneth S. Grubbe. . .

has been promoted to vice president, finance, and assistant treasurer at Farmland Industries, Inc., in Kansas City, MO, succeeding Robert W. Ferguson who retired. Grubbe has been with Farmland since 1962 and had been financial vice president and treasurer of Far-Mar-Co, Inc., Farmland's grain marketing subsidiary, until it was sold.

At Riceland Foods, Inc. . .

Beverly Harlan has joined as communication coordinator of corporate advertising, publications, and communication materials. She also will assist in news media liaison and oversee efforts related to promotional items, tours, and conferences. Brad Boyd has been appointed manager of member services and responsible for planning, directing, and coordinating programs provided to members and patrons.

Harold W. Jackson. . .

Yuba City, CA, has been named president of Sunsweet Dryers succeeding Frank Light, who resigned in late December. Jackson, who also is president of Sunsweet Growers and a senior vice-president of Sun-Diamond Growers, has managed Sunsweet plant operations since 1976.

At Jackson Farm Credit Banks. . .

James Toft, chief executive officer of the Farm Credit Banks of Jackson, Ms, has designated four operational divisions to carry out the consolidated functions of the three banks. Under the leadership of Mike Fletcher, the corporate services division includes corporate development, human resources, cooperative credit, review and standards, and legal departments. George Cotner heads the credit administration division; James Bennett, operations division; and Lester Jeansonne, financial division.

At ACDI. . .

Lee Rosner, former adviser in Uganda, has been appointed director of training and evaluation. Simultaneously, Douglas Petrie, associate training director, was promoted to deputy training director.

At Sun-Diamond Growers of California...

new leaders have been named for its marketing and sales division. William R. Nelson becomes director of sales and Richard C. Miller, director of business management/marketing. Both also serve as senior vice presidents and management board members of Sun-Diamond Growers and report directly to Chief Executive Officer David R. Newstadt. Miller and Nelson came to Sun-Diamond from CPC International, Inc., in New Jersey. Nelson had been president of CPC's Foodservice Division and earlier president and chief executive officer of the CPC-owned Dutch Pantry, Inc. Miller had been president and chief executive officer of S.B. Thomas, Inc., an independent baking subsidiary of CPC, and earlier vice president of product management for CPC's Best Foods Division.

At Ocean Spray Cranberries, Inc...

two new vice presidents have been named to strengthen the executive management structure in preparation for rapid growth predicted in the years ahead. Both have been with the cooperative. Thomas E. Bullock of Marshfield, MA, and formerly of Lafayette Hill, PA, has been promoted to vice president, business operations. Bullock will oversee all Ocean Spray marketing efforts and will report to John S. Llewellyn, Jr., executive vice president and chief operating officer. John Ropes of Sandwich, MA, and formerly of Vero Beach, FL, has been promoted to vice president, grower relations. Ropes will oversee all activities of the cooperative's grower relations

department including maintaining adequate volumes of grapefruit and cranberries, developing and maintaining communications avenues between the cooperative's grower-owners and administration, and supervising grower-owner services. He will report to Curtis L. Collison, Jr., senior vice president.

At Southern States Cooperative...

DeWitt T. Brooks, advertising manager of SSC, has been elected president of the Advertising Council of Cooperatives International. The council's membership is composed of advertising communication people from farmer-owned cooperatives in the United States and Canada.

At Welch Foods...

James Weidman III has been elected vice president-corporate communications by the board of directors. He joined Welch Foods in 1971 as director of corporate communications and was elected an officer of the company in 1976.

In Spokane Farm Credit District....

Hugh Vibbert, Madras, OR, and Ron Feryn, Mead, WA, have been elected new chairmen, respectively, of the Interstate Production Credit Association and Interstate Federal Land Bank Association. Clayton Alford, Pasco, WA (PCA) and Dwight Osborne, Hagerman, ID, (FLBA), were elected vice chairmen of their respective boards. Association boards consist of one PCA representative and one FLBA representative for each of the six regions in 12th District Farm Credit Services.

Allen Gerber...

has been chosen executive director of the Minnesota Association of Cooperatives (MAC) effective Nov. 1, replacing Edward Slettom, current executive director, who will be retiring after 30 years' service. Gerber has served as executive assistant at MAC for the past 8 years.

Claire H. Peters...

has been named public relations manager of Sunkist Growers, Inc. She will be responsible for directing the cooperative's public relations activities and publications program. Peters has been assistant vice president for marketing and member relations for Sacramento Farm Credit Banks.

Allen J. Vangelos...

has been named president and chief executive officer of Calavo Growers of California, Los Angeles-headquartered marketing cooperative of 2,605 growers. Calavo annually accounts for about half of the State's avocado production. The co-op also markets a full line of complementary specialty produce. Vangelos joined Calavo from Castle & Cooke where he was president, international diversified business and fresh marketing. His responsibilities there included marketing activities for 60 fresh products sold in North America, new fresh product development, all Pacific Basin sales and marketing activity, and coordination of fresh product marketing in Europe.

Earl L. Giacolini...

Fresno, CA, has been elected chairman of the board of directors for Sunsweet Growers, Inc. Vince J. Flynn, Red Bluff, has been elected new vice chairman. Giacolini replaces the retiring Charles T. Yerxa, who served as Sunsweet chairman for 11 years but continues on the board. Giacolini also was elected vice chairman of the board of directors for Sun-Diamond Growers of California, the administrative and marketing cooperative for Sunsweet Growers, Diamond Walnut Growers, Inc., Sun-Maid Raisin Growers of California, Valley Fig Growers, and Hazelnut Growers of Oregon.

Alma Ellis...

is the new communications specialist for the Farm Credit Banks of Jackson, MS. She will be responsible for producing the employee newsletter, the corporate magazine, annual report, and other publications designed to enhance the banks' public and media relations.

At Farm Credit Capital Corporation...

the board of directors has appointed Hugh R. Macklin as president and chief executive officer. Macklin comes from a varied background in finance and management including early years with the Berkley Federal Land Bank, extensive experience with a major insurance company in finance and management, president of a Colorado cattle and land company, and head of his Arizona farm managmeent and financial consulting firm. He replaces Ben L. Hauenstein, who has been acting president since the corporation was restructured under the Farm Credit Amendments Act of 1985. The corporation has subsequently moved its headquarters from Wichita, KS, to Kansas City, MO.

New at Agricultural Cooperative Service...

Galen Rapp has joined the agency as an educational specialist on the administrator's information and education staff. Rapp has been a business consultant for Farmland Industries, Inc., in Nebraska and a local elevator manager in Kansas and Iowa. He is past president of the Kansas Cooperative Council and a former vocational agriculture teacher. In the Cooperative Marketing and Purchasing Division's international trade group, Karen Spatz has joined the agency from the University of California-Davis.

Around the Farm Credit System...

Jack Perry has resigned as joint chief executive of the Wichita Farm Credit Banks. Vernon Peckham, Scottsdale, AZ, vice president of HANCO Companies of Pheonix, has been chosen to serve as acting president until a permanent selection is made by the end of the year. George Hickman has been named president of the Sacramento Farm Credit Banks succeeding George "Buzz" Anderson who retired after years of service as president.

At Seald-Sweet Growers, Inc. . .

John (Jay) Holford has been named chief executive officer. Don Lins, executive vice president and general manager, becomes president of Seald-Sweet Sales, Inc., as well as president of Seald-Sweet International, two subsidiary companies. Lins has been with Seald-Sweet for 31 years. Holford was most recently general manager of Ventura County Citrus Exchange, Santa Paula, CA. He has had a long career in the food business beginning with Hunt Wesson Foods, then Sunkist Growers, Inc., and later as president of Texas Citrus Exchange.

At Welch Foods, Inc. . .

Paul M. McDonald is the new vice president, finance. He was with IPL Systems, Waltham, MA., a manufacturer of electronic computers, as vice president of finance for 6 years. Earlier, he held several finance and marketing positions over a 15 year period with the Gillett Company.

National, Pacific Bargaining Co-ops Plan Common Meeting

Representatives of agricultural marketing and bargaining cooperatives will gather in Anaheim, CA, on Jan. 23 and 24 at the Disneyland Hotel before the annual meeting of National Council of Farmer Cooperatives. The 1987 meeting will combine the annual national and Pacific coast conferences of bargaining cooperatives. Chairman of the national committee is Dave Zollinger, executive vice president of the California Tomato Growers Association, shown at left making a point during the 1986 conference. Vice chairman is Gary Hanman, executive vice president and general manager of Mid-America Dairymen. Ron Schuler, president of the California Canning Peach Association, is secretary-treasurer of the national committee and president of the Pacific coast committee.

Former ACS Economist Warren Mather Dies

J. Warren Mather, 75, a former cooperative management division director, agricultural economist, and a leading authority on agricultural cooperatives with USDA's Agricultural Cooperative Service (ACS) in Washington, DC, died of cancer Oct. 4 at Arlington (VA) Hospital. He had worked with cooperatives ever since graduating from college and retired about 5 years ago after 44 years of Federal service. He authored or co-authored many publications about farm supply cooperatives and commodities they distributed. In 1942, USDA honored him with its Superior Service Award. His achievements merited national industry recognition in 1980 when the National Cooperative Month Planning Committee gave him its cooperative public service award. Mather was a native of Kansas, received degrees from Kansas State College, and was an extension marketing specialist in Kansas before joining ACS in 1943. Donations in his name may be sent to American Institute of Cooperation, Foundation for Agricultural Cooperation, 50 F. St. NW, Washington, DC 20001.

Antitrust Decisions Go Against Cooperatives

The United States Department of Justice opposed a rice cooperative's purchase of another rice milling company's assets and took the cooperative to court. A U.S. District Court found, in United States v. Rice Growers Association of California (1986-2 Trade Cases P.67,287 and 67,288, E.D. Cal., 1986), the cooperative improperly eliminated competition by the purchase.

In 1984, Rice Growers Association of California purchased assets of Pacific International Rice Mills, Inc. The purchase included physical assets as well as copyrights, trade names, patents and licenses, a joint venture agreement, a supply contract, a labor contract, and other assets. The Court said although the purchase was called an acquisition of assets, it was a purchase of an ongoing business. The acquired business continued to operate under Rice Growers' ownership substantially as it did before. It bought unmilled rice, employed the same work force, and marketed milled rice through the same network of food brokers.

The Department of Justice alleged acquisition would substantially lessen competition in three relevant markets—purchase of paddy (unmilled rice) grown in California for milling; sale of calrose (a type of rice) by mills for direct food use in the Pacific Region; and sale of California medium-grain milled rice to food processors in the Pacific Region.

The Court found a well-defined market for paddy rice, though the other two markets were inadequately defined. It said California rice growers normally would have no good alternative purchasers if California mills were to lower payment for paddy. Most paddy rice grown by California rice growers historically has been milled by California mills. California rice producers have no good alternatives for mills to which to sell their paddy rice, and unmilled rice has no real market.

The Court said "although the government has not established two of the three relevant markets alleged in the complaint, it need only show an unlawful impact in one of those three alleged markets to prevail. A relevant market consisting of the purchase or acquisition for milling of paddy rice grown in California has been established. Moreover, based on the finding set forth below, the government has shown that the acquisition will further increase the concentration in that market."

Competition between Rice Growers and Pacific International would be eliminated by the acquisition. Analysis of all milling facilities in California showed Rice Growers purchased between 45 and 48 percent of rice grown in California, and Pacific International purchased between 13 and 19 percent. The acquisition would result in Rice Growers purchasing nearly two thirds of the rice grown in California, a significant increase in an already concentrated market.

The Court concluded acquisition was prohibited by Section 7 of the Clayton Act because its effect may be substantially to lessen competition in the market for paddy rice grown in California. The court said Rice Growers' argument about its acquisition being motivated solely by the need to modernize its operation at the lowest possible cost to be even more competitive was "superficially attractive." It continued, however, "a benign motive cannot save the acquisition from illegality under Section 7."

The Court also said the Capper-Volstead Act cannot immunize a cooperative's acquisition of a competing non-cooperative business when the acquisition violates Section 7 of the Clayton Act.

The Court did not order recision of the acquisition. Under recision, the parties to the acquisition would be treated generally as if the sale had not taken place. The Court said under the circumstances divestiture would be a more appropriate remedy, requiring Rice Growers to sell the acquired milling company under Court-approved conditions.

James R. Baarda
ACS Agricultural Economist

Sunkist Penalized

Sunkist Growers, Inc., has agreed to pay $375,000 in civil penalties for failing to sell a processing plant by the deadline established in a Federal Trade Commission (FTC) consent order. The divestiture, part of a settlement of an antitrust complaint brought by FTC against Sunkist, was first ordered for 1982, then 1983, but didn't take place until 1984.

1986 ARTICLE INDEX

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